

NEW ISSUE
Book-Entry-Only

RATING: Standard & Poor's: AAA
(See "RATING" herein)

In the opinion of Bingham McHale LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the 2003 B Bonds (as hereafter defined) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the 2003 B Bonds. In the opinion of Bond Counsel under existing laws, interest on the 2003 B Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. See "TAX MATTERS" and Appendix C herein.

\$8,885,000
Indiana Bond Bank
Special Program Bonds, Series 2003 B

Dated: January 1, 2003

Due: February 1 as shown on the inside cover

The Indiana Bond Bank Special Program Bonds, Series 2003 B (the "2003 B Bonds") will bear interest from January 1, 2003, to their respective maturities in the amounts and at the rates set forth on the inside front cover. The 2003 B Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the 2003 B Bonds will be made in book-entry-only form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of beneficial interests in the 2003 B Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the 2003 B Bonds. Interest on the 2003 B Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2003. The principal of, redemption premium, if any, and interest on the 2003 B Bonds will be paid directly to DTC by Union Federal Bank of Indianapolis, as trustee (the "Trustee") under the Indenture, as defined and described herein, so long as DTC or its nominee is the registered owner of the 2003 B Bonds. The final disbursement of such payments to the Beneficial Owners of the 2003 B Bonds will be the responsibility of the DTC Participants and the Indirect Participants, all as defined and more fully described herein under the caption "THE 2003 B BONDS-Book-Entry-Only System."

The 2003 B Bonds are issued by the Indiana Bond Bank (the "Bond Bank") for the principal purposes of (1) providing funds for the purchase of securities of certain Qualified Entities as defined and described herein; (2) paying a portion of the interest due on the 2003 B Bonds on August 1, 2003; (3) paying the bond insurance premium and debt service reserve fund credit facility premium to FINANCIAL SECURITY ASSURANCE INC. (the "2003 B Bond Insurer"); and (4) paying costs related to the issuance of the 2003 B Bonds, all as more fully described in this Official Statement.

The 2003 B Bonds are subject to optional, mandatory sinking fund and extraordinary mandatory redemption prior to maturity as described herein under the caption "THE 2003 B BONDS-Redemption."

The 2003 B Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture. The 2003 B Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the "State") or any political subdivision thereof, including any Qualified Entity under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including any Qualified Entity. The source of payment of, and security for, the 2003 B Bonds are more fully described herein. The Bond Bank has no taxing power.

(A detailed maturity schedule is set forth on the inside cover)

The scheduled payment of principal of and interest on the 2003 B Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series B Bonds by the 2003 B Bond Insurer



The 2003 B Bonds are offered when, as and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Bingham McHale LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by counsel for the Issuer, Barnes & Thornburg, Indianapolis, Indiana, and for the Underwriters by their counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana. It is expected that the 2003 B Bonds will be available for delivery to DTC in New York, New York on or about January 29, 2003.

NatCity Investments, Inc.

McDonald Investments Inc.

This cover page contains information for reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

January 16, 2003

Maturity Schedule
\$8,885,000
Indiana Bond Bank
Special Program Bonds, Series 2003 B

\$7,485,000 Serial Bonds

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
February 1, 2004	\$345,000	2.000%	1.250%
February 1, 2005	430,000	2.000%	1.550%
February 1, 2006	390,000	2.000%	2.050%
February 1, 2007	450,000	2.500%	2.440%
February 1, 2008	360,000	3.750%	2.900%
February 1, 2009	475,000	3.750%	3.260%
February 1, 2010	500,000	3.750%	3.560%
February 1, 2011	475,000	3.750%	3.790%
February 1, 2012	495,000	3.900%	3.960%
February 1, 2013	520,000	4.000%	4.080%
February 1, 2014	535,000	4.000%	4.250%
February 1, 2015	560,000	4.250%	4.400%
February 1, 2016	585,000	4.400%	4.500%
February 1, 2017	610,000	5.000%	4.550%*
February 1, 2018	755,000	4.600%	4.700%

\$1,400,000 4.75% Term Bonds due February 1, 2023 Yield 4.950%

(Accrued interest to be added)

* Priced to the optional redemption date February 1, 2012

INDIANA BOND BANK

Board of Directors

Tim Berry, Chairman, Ex Officio
Clark H. Byrum, Vice Chairman
Russell Breeden, III
Marni McKinney
Morris H. Mills
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Officer of the Bond Bank

Dan Huge, Executive Director

Trustee

Union Federal Bank of Indianapolis
Indianapolis, Indiana

Indiana Bond Bank Counsel

Barnes & Thornburg
Indianapolis, Indiana

Bond Counsel

Bingham McHale LLP
Indianapolis, Indiana

Financial Advisor

Crowe, Chizek and Company LLP
Indianapolis, Indiana

No dealer, broker, salesperson or other person has been authorized by the Bond Bank or by the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the 2003 B Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2003 B Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the information presented herein since the date hereof.

Other than with respect to information concerning the 2003 B Bond Insurer contained under the caption "Bond Insurance" and Appendix F, "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the 2003 B Bond Insurer and the 2003 B Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2003 B Bonds; or (iii) the tax exempt status of the interest on the 2003 B Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2003 B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BOND BANK AND THE TERMS OF THE OFFERING, INCLUDING THE MERIT AND RISK INVOLVED. THE 2003 B BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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TABLE OF CONTENTS

INTRODUCTION	1
THE 2003 B BONDS.....	2
SECURITY AND SOURCES OF PAYMENT FOR THE 2003 B BONDS	8
AGREEMENT WITH THE STATE	12
BOND INSURANCE	12
DEBT SERVICE RESERVE FUND CREDIT FACILITY	13
RISKS TO OWNERS OF THE 2003 B BONDS	14
PLAN OF FINANCING	17
APPLICATION OF PROCEEDS OF THE 2003 B BONDS.....	17
THE INDIANA BOND BANK	17
REVENUES, FUNDS AND ACCOUNTS	21
OPERATION OF FUNDS AND ACCOUNTS	22
LITIGATION.....	26
TAX MATTERS.....	27
ORIGINAL ISSUE DISCOUNT	28
AMORTIZABLE BOND PREMIUM.....	29
ENFORCEABILITY OF REMEDIES	30
APPROVAL OF LEGAL PROCEEDINGS.....	30
RATING	30
UNDERWRITING	31
VERIFICATION OF MATHEMATICAL CALCULATIONS	31
2003 B BONDS AS LEGAL INVESTMENTS	31
AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION.....	31
CONTINUING DISCLOSURE.....	32
MISCELLANEOUS	35
APPENDIX A FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA	A-1
APPENDIX B 2003 B QUALIFIED OBLIGATIONS	B-1
APPENDIX C FORM OF BOND COUNSEL OPINION	C-1
APPENDIX D SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	D-1
APPENDIX E DEFINITIONS	E-1
APPENDIX F SPECIMEN MUNICIPAL BOND INSURANCE POLICY	F-1

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OFFICIAL STATEMENT

\$8,885,000

Indiana Bond Bank Special Program Bonds, Series 2003 B

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its \$8,885,000 aggregate principal amount of Special Program Bonds, Series 2003 B (the "2003 B Bonds") to be issued by the Bond Bank. The 2003 B Bonds are authorized by resolutions adopted by the Board of Directors of the Bond Bank on August 13, 2002; October 8, 2002; November 12, 2002; and January 14, 2003, (together, the "Resolutions") and are issued pursuant to the provisions of a Indenture of Trust, dated as of January 1, 2003, between the Bond Bank and the Trustee (as hereinafter defined) (the "Indenture"), and the laws of the State of Indiana, including particularly Indiana Code 5-1.5 (as amended from time to time, the "Act"). Union Federal Bank of Indianapolis is the trustee, registrar and paying agent (the "Trustee") under the Indenture.

The proceeds from the sale of the 2003 B Bonds will be used to provide funds to (a) purchase the 2003 B Qualified Obligations identified in Appendix B of this Official Statement (collectively, the "2003 B Qualified Obligations") and (b) pay all of the Costs of Issuance (as defined in Appendix E) of the 2003 B Bonds, including the underwriters' discount, the bond insurance premium and the debt service reserve fund credit facility premium to Financial Security Assurance Inc. (the "2003 B Bond Insurer"). See the caption "PLAN OF FINANCING."

Upon the delivery of the 2003 B Bonds and receipt of the net proceeds therefor, the Bond Bank shall deliver to the Trustee a portion of the proceeds of the 2003 B Bonds for deposit (1) into the Bond Issuance Expense Account, the sum of \$120,000.00, to pay Costs of Issuance (other than underwriters' discount retained by the Underwriters and the premiums for the bond insurance and the debt service reserve fund credit facility paid by the Underwriters directly to the 2003 B Bond Insurer for and on behalf of the Bond Bank); and (2) into the General Account \$8,662,318.40 which is the remainder of the net proceeds, of which \$8,634,167.55 will be used for payments to the 2003 B Qualified Entities for the purchase of the 2003 B Qualified Obligations identified in Appendix B, and \$28,150.85 will be used to pay a portion of the interest on the 2003 B Bonds as more fully described in this Official Statement under the captions "PLAN OF FINANCING" and "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 B BONDS."

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. Summaries of

certain provisions of the Indenture and definitions of some of the capitalized words and terms used in this Official Statement are set forth in Appendix D and Appendix E. Terms not defined herein shall have the respective meanings ascribed thereto in the Indenture.

Information contained in this Official Statement with respect to the Bond Bank and the Qualified Entities and copies of the Indenture and the Authorizing Instruments (as hereinafter defined) may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317) 233-0888.

THE 2003 B BONDS

General Description

The 2003 B Bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The 2003 B Bonds will carry an original date of January 1, 2003, and the date of authentication.

Interest on the 2003 B Bonds will be payable semi-annually on February 1 and August 1 of each year, commencing August 1, 2003 (each an "Interest Payment Date"). The 2003 B Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. If a 2003 B Bond is authenticated on or prior to July 15, 2003, it shall bear interest from January 1, 2003. Each 2003 B Bond authenticated after July 15, 2003, shall bear interest from the most recent Interest Payment Date to which interest has been paid on the date of authentication of such 2003 B Bond unless such 2003 B Bond is authenticated after a Record Date and on or before the next succeeding Interest Payment Date, in which event the 2003 B Bond will bear interest from such next succeeding Interest Payment Date.

When issued, all 2003 B Bonds will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the 2003 B Bonds will be made in book-entry-only form (without certificates) in the denomination of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the 2003 B Bonds payments of the principal of and interest on the 2003 B Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the 2003 B Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See the heading, "Book-Entry-Only System" under this caption.

If DTC or its nominee is not the registered owner of the 2003 B Bonds, principal of and premium, if any, on all of the 2003 B Bonds will be payable at maturity upon the surrender thereof at the principal corporate trust office of the Trustee. Interest on the 2003 B Bonds, when due and payable, will be paid by check dated the due date mailed by the Trustee one business day prior to the due date (or, in the case of an owner of 2003 B Bonds in an aggregate principal amount of at least \$1,000,000, by wire transfer on such due date, upon written direction of such registered owner to the Trustee not less than five business days before the Record Date

immediately prior to such Interest Payment Date, which direction shall remain in effect until revoked in writing by such owner) to the persons in whose names such 2003 B Bonds are registered, at their addresses as they appear on the bond registration books maintained by the Trustee on the Record Date, irrespective of any transfer or exchange of such 2003 B Bonds subsequent to such Record Date and prior to such Interest Payment Date unless the Bond Bank shall default in the payment of interest due on such Interest Payment Date.

Except as provided under "Book-Entry-Only System," in all cases in which the privilege of exchanging or transferring 2003 B Bonds is exercised, the Bond Bank will execute and the Trustee will deliver 2003 B Bonds in accordance with the provisions of the Indenture. The 2003 B Bonds will be exchanged or transferred at the principal corporate trust office of the Trustee only for 2003 B Bonds of the same tenor and maturity. In connection with any transfer or exchange of 2003 B Bonds, the Bond Bank or the Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

The person in whose name a 2003 B Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal thereof and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments shall be valid to satisfy and discharge the liability upon such 2003 B Bond to the extent of the sum or sums so paid.

Redemption

Optional Redemption. The 2003 B Bonds maturing on or after February 1, 2013, are subject to redemption prior to maturity on or after February 1, 2012, in whole or in part on any date as selected by the Bond Bank, at a redemption price equal to the principal amount of each 2003 B Bond to be redeemed, plus accrued interest to the redemption date, and without any redemption premium.

Mandatory Redemption. The 2003 B Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on February 1, 2023 (the "Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such Term Bonds, plus accrued interest on February 1 of each year as shown in the following table:

Term Bonds Due February 1, 2023

<u>Year</u>	<u>Principal Amount</u>
2019	\$260,000
2020	\$270,000
2021	\$280,000
2022	\$285,000
2023*	\$305,000

*Final Maturity

Under the Indenture, selection of Term Bonds to be redeemed will be made by lot by the Trustee. In accordance with DTC's standard practices and its agreement with the Bond Bank, DTC and the DTC Participants will make this selection so long as the 2003 B Bonds are in book entry form. The principal amount of Term Bonds to be redeemed on each date set forth above will be subject to reduction by the principal amount of any such Term Bonds of the same maturity which, not less than 45 days prior to a sinking fund redemption date, have been theretofore surrendered to or purchased by the Trustee for cancellation and canceled, all in accordance with the Indenture. The principal amount of any Term Bonds so surrendered and canceled in excess of the principal amount scheduled for redemption in any one year will be credited against future redemption obligations and the principal amounts of Term Bonds subject to sinking fund redemption at such times will be accordingly reduced.

Extraordinary Mandatory Redemption. The 2003 B Bonds are also subject to extraordinary mandatory redemption in whole or in part, at any time, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, from and to the extent that moneys are deposited in the Redemption Account from an extraordinary redemption of a Qualified Obligation or from proceeds received upon a default on a Qualified Obligation, unless such moneys can be invested at a yield calculated in accordance with the Code (as defined in Appendix E) over any period of time ending on any subsequent Interest Payment Date which equals or exceeds the average interest rate on the Outstanding 2003 B Bonds provided that in the Opinion of Bond Counsel (as defined in Appendix E) such investment would not cause any of the 2003 B Bonds to be "arbitrage bonds" as defined in the Code or otherwise cause the interest on the 2003 B Bonds to be includable in gross income of the owners thereof for federal income tax purposes.

Cash Flow Certificate. Prior to any optional or extraordinary mandatory redemption of any 2003 B Bonds, the Bond Bank will be required under the Indenture to deliver or to cause to be delivered to the Trustee a Cash Flow Certificate (as defined in Appendix E) to the effect that, giving effect to such redemption, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Notice of Redemption. In the case of redemption of the 2003 B Bonds, notice of the call for any such redemption identifying the 2003 B Bonds, or portions of fully registered 2003 B Bonds, to be redeemed will be given by mailing a copy of the redemption notice by first class, registered or certified mail not less than 30 days nor more than 45 days prior to the date fixed for redemption to the Registered Owner of the 2003 B Bonds to be redeemed at the address shown on the registration books of the Trustee. Failure to give such notice by mailing, or any defect thereof with respect to any 2003 B Bonds, shall not affect the validity of any proceedings for the redemption of any other 2003 B Bonds. All 2003 B Bonds so called for redemption shall cease to bear interest on the specified redemption date, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture, provided funds for their redemption are on deposit at the place of payment at that time.

Redemption Payments. Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the Redemption Price of the 2003 B Bonds called, together with accrued interest on the 2003 B Bonds to the redemption date.

Book-Entry-Only System

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2003 B Bonds. The 2003 B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2003 B Bond will be issued for each maturity of the 2003 B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over eighty-five countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC

has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of the 2003 B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2003 B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003 B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2003 B Bonds, except in the event that use of the book-entry system for the 2003 B Bonds is discontinued.

4. To facilitate subsequent transfers, all 2003 B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2003 B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2003 B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2003 B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2003 B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2003 B Bond documents. For example, Beneficial Owners of 2003 B Bonds may wish to ascertain that the nominee holding the 2003 B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the 2003 B Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2003 B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting

or voting rights to those Direct Participants to whose accounts, the 2003 B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. The principal and interest payments on the 2003 B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Trustee, or Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. The payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the 2003 B Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the 2003 B Bond certificates are required to be printed and delivered.

10. The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2003 B Bonds certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE BOND BANK BELIEVES TO BE RELIABLE, BUT THE BOND BANK TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

Revision of Book-Entry-Only System

In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the 2003 B Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the 2003 B Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the 2003 B Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the 2003 B Bonds and to transfer the ownership of each of the 2003 B Bonds to such person or persons, including any other clearing agency, as the holder of such 2003 B Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the 2003 B Bonds, will be paid by the Bond Bank.

SECURITY AND SOURCES OF PAYMENT FOR THE 2003 B BONDS

The 2003 B Bonds will be issued under and secured by the Indenture. The principal of, redemption premium, if any, and interest on any and all of the 2003 B Bonds, together with any Refunding Bonds that may be authorized and issued by the Bond Bank under the Indenture on a parity with the 2003 B Bonds (collectively, the "Bonds"), are payable from those revenues and funds of the Bond Bank which, together with the 2003 B Qualified Obligations and all other qualified obligations pledged under the Indenture (collectively, the "Qualified Obligations"), are pledged pursuant to the Indenture for the benefit of the owners of the Bonds equally, ratably and without priority.

Neither the faith, credit nor taxing power of the State of Indiana (the "State") or any political subdivision thereof including the Qualified Entities (as defined in Appendix E), is pledged to the payment of the principal of, redemption premium, if any, and interest on any of the Bonds. The Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State or of any political subdivision thereof including the Qualified Entities. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank. The sources of payment of and security for the Bonds are more fully described below.

Under the Indenture, the Bonds are secured by a pledge to the Trustee of the Qualified Obligations and all principal and interest payments made or required to be made on the Qualified Obligations (the "Qualified Obligation Payments"), as described therein. In addition, the Indenture pledges to the payment of the Bonds all proceeds of the Trust Estate, including without limitation all cash and securities held in the Funds and Accounts created by the Indenture, except for the Rebate Fund and the accounts thereunder, together with investment earnings thereon and proceeds thereof (except to the extent transferred to the Rebate Fund from such Funds and Accounts under the Indenture), and all other funds, accounts and moneys to be pledged by the Bond Bank to the Trustee as security under the Indenture, to the extent of any such pledge. Under the Act and Indiana Code 5-1-14-4, such pledge is valid and binding from and after the date of delivery of the 2003 B Bonds under the Indenture and such Qualified Obligations and the Qualified Obligation Payments thereon shall be immediately subject to the lien of such pledge without any physical delivery of the payments or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Bond Bank, irrespective of whether such parties have notice thereof. The Qualified Obligation Payments with respect to the 2003 B Qualified Obligations have been structured as of the date of issuance of the 2003 B Bonds to be sufficient along with earnings thereon, and other money in the Funds and Accounts under the Indenture and the earnings thereon, to pay the principal of and interest on the 2003 B Bonds when due.

Provisions for Payment of the Qualified Obligations

The payment of principal of and interest on the Qualified Obligations is derived by each of the Qualified Entities from revenues or, in one case, from ad valorem taxes upon all the taxable property within the jurisdiction of such Qualified Entity. Each of the Qualified Obligations has been issued pursuant to a separate detailed resolution, ordinance or indenture of

the governing body of the respective Qualified Entity (collectively and individually, the "Authorizing Instruments"). The sources of payment on the Qualified Obligations are further described below.

Tax-Based Obligations. Political subdivisions in Indiana may issue general obligation bonds and special taxing district bonds payable from unlimited ad valorem taxes and secured by the full faith and credit of the political subdivision or the special taxing district.

Each year, political subdivisions in Indiana are required to meet to fix a budget, establish a tax rate and determine the tax levy for the ensuing budget year. The officers of each political subdivision are required by the provisions of Indiana Code 6-1.1-18-3(b) to fix tax rates which are sufficient to provide funds to pay, among other things, the principal of and interest on any obligation of the political subdivision described therein. The appropriation is reviewed by the Department of Local Government Finance to ascertain that the amount of the appropriation is sufficient to meet the political subdivision's debt service obligations. Upon review, the Department of Local Government Finance is authorized by the provisions of Indiana Code 6-1.1-17-17 to increase the tax rate and tax levy of a political subdivision to pay, among other things (i) the principal and interest upon a fund, refunding or judgment funding obligation of the political subdivision, (ii) principal and interest upon an outstanding obligation of a political subdivision, (iii) a judgment rendered against a political subdivision or (iv) lease rentals of a political subsidiaries. The Jeffersonville Township Public Library District, Clark County, Indiana (the "Library") is one of the 2003 B Qualified Entities and its Qualified Obligation that will be purchased by the Bond Bank consists of the Library's general obligation bonds.

Regional District Revenue Obligations. The rates and charges of a regional district sewage works are presently not under the jurisdiction of the Indiana Utility Regulatory Commission (the "IURC"). Under the provisions of Indiana Code 13-26, the board of trustees, the governing body of regional districts, must enact fair and equitable fees sufficient to provide, among other things, net revenues which fund a sinking fund for the liquidation of bonds or other evidences of indebtedness. Such net revenues are defined as gross revenues less reasonable operation, repair and maintenance costs. Also under the statute, fees which are too low to meet the cash operating and other requirements of the district, including the payment of debt service, are unlawful. The K&H Regional Sewer District described in Appendix B, is one of the 2003 B Qualified Entities and its Qualified Obligation that will be purchased by the Bond Bank consists of its bonds that are payable solely from net revenues of its sewage works.

Municipal Water Utility Revenue Obligations. The rates and charges of municipal water utilities are generally under the jurisdiction of the IURC. However, a municipality may remove itself from the jurisdiction of the IURC pursuant to Indiana Code 8-1.5-3-9. Whether a municipality is or is not under the jurisdiction of the IURC, its rates are still governed by the provisions of Indiana Code 8-1.5-3-8 and the legislative body of a municipality owning a water utility must enact reasonable and just rates sufficient to provide, among other things, net revenues which fund a sinking fund for the liquidation of bonds or other evidences of indebtedness. Such net revenues are defined as gross revenues less reasonable operation, repair and maintenance costs. Also under the statute, fees which are too low to meet the cash operating and other requirements of the utility, including the payment of debt service, are unlawful. The

City of Loogootee, described in Appendix B removed itself from the IURC on April 12, 1996 and is one of the 2003 B Qualified Entities and its Qualified Obligation that will be purchased by the Bond Bank consists of its bonds that are payable solely from net revenues of its water utility.

See Appendix B for additional information concerning the 2003 B Qualified Obligations.

Enforcement of the Qualified Obligations

As owner of the Qualified Obligations, the Bond Bank has available to it all remedies available to owners or holders of securities issued by Qualified Entities. The Act provides that upon the sale and the delivery of any Qualified Obligation to the Bond Bank, a Qualified Entity will be deemed to have agreed that all statutory defenses to nonpayment are waived in the event that such Qualified Entity fails to pay principal of or interest on such Qualified Obligation when due.

Further, each Qualified Entity, whose Qualified Obligations are subject to the Code, has agreed under the purchase agreement for its respective Qualified Obligation to report to the Bond Bank on its compliance with certain covenants which the Qualified Entity has made regarding various actions and conditions necessary to preserve the tax exempt status of interest paid on the Qualified Obligations. See the caption "TAX MATTERS." The Bond Bank has also determined to consult with the Qualified Entities, as necessary from time to time, with regard to the action needed to be taken by the Qualified Entities to preserve the exclusion of the interest on the 2003 B Bonds from the gross income of the holders of the 2003 B Bonds.

The Bond Bank will monitor the compliance and consult regularly with the Qualified Entities with respect to their respective requirements under the Qualified Obligations, including the making of Qualified Obligation Payments to the Bond Bank.

Additional Bonds

Additional bonds of the Bond Bank may be issued on a parity with the 2003 B Bonds pursuant to the Indenture only for the purpose of refunding (in whole or in part) Bonds issued by the Bond Bank pursuant to the Indenture.

Debt Service Reserve Fund

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

- (i) Moneys available to the Bond Bank from proceeds of the sale of the 2003 B Bonds;
- (ii) All money required to be transferred to the Debt Service Reserve Fund for the replenishment thereof from another Fund or Account under the Indenture;

(iii) All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and

(iv) Any other available money, funds or a Credit Facility that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to the least of (i) the maximum annual debt service on the Bonds, (ii) ten percent of the original stated principal amount of the Bonds, or (iii) 125 percent of average annual debt service on the Bonds.

Moneys in the Debt Service Reserve Fund from time to time will be invested pursuant to the Investment Agreement and it is anticipated that such investment and the earnings thereon will be used to pay a portion of the principal of and interest on the 2003 B Bonds. However, there can be no assurance that such moneys or the earnings thereon will be available, if and when needed, to pay debt service on the 2003 B Bonds. For further information regarding the Investment Agreement and the nature of and requirements for the investment of the Debt Service Reserve Fund, see "RISKS TO THE OWNERS OF THE 2003 B BONDS. "

Except as provided in the Indenture, moneys in the Debt Service Reserve Fund will be held and applied to the payment of the principal of and interest on the Bonds in cases where sufficient funds are not available in other Funds and Accounts for such payments.

State Appropriations Mechanism

The Act provides that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank to the State General Assembly prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the amount then required to be on deposit in the Debt Service Reserve Fund to the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank ("Fiscal Year") in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$276,360,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

AGREEMENT WITH THE STATE

Under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank, including the 2003 B Bonds, not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2003 B Bonds, the 2003 B Bond Insurer will issue its Municipal Bond Insurance Policy for the 2003 B Bonds (the “2003 B Bond Insurance Policy”). The 2003 B Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the 2003 B Bonds when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

The 2003 B Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The 2003 B Bond Insurer

The 2003 B Bond Insurer is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or the 2003 B Bond Insurer is liable for the obligations of the 2003 B Bond Insurer.

At September 30, 2002, the 2003 B Bond Insurer’s total policyholders’ surplus and contingency reserves were approximately \$1,728,433,000 and its total unearned premium reserve was approximately \$972,390,000 in accordance with statutory accounting principles. At September 30, 2002, the 2003 B Bond Insurer’s total shareholders’ equity was approximately \$1,928,564,000 and its total net unearned premium reserve was approximately \$814,684,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the 2003 B Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The 2003 B Bond Insurance Policy does not protect investors against changes in market value of the 2003 B Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The 2003 B Bond Insurer makes no representation regarding the 2003 B Bonds or the advisability of investing in the 2003 B Bonds. The 2003 B Bond Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the 2003 B Bond Insurer has provided to the Bond Bank the information presented under this caption for inclusion in the Official Statement. See “APPENDIX F.”

DEBT SERVICE RESERVE FUND CREDIT FACILITY

The Indenture requires the establishment of a Debt Service Reserve Fund in an amount equal to the least of (i) the maximum annual principal and interest requirements on the Bonds or (ii) 125% of average annual principal and interest requirements on the Bonds or (iii) 10% of the stated principal amount of the Bonds. The Indenture authorizes the Bond Bank to obtain a Debt Service Reserve Fund Credit Facility in place of fully funding the Debt Service Reserve Fund. Accordingly, a commitment has been made by the 2003 B Bond Insurer for the issuance of a Debt Service Reserve Fund Credit Facility (the “FSA Credit Facility”) for the purpose of funding the Debt Service Reserve Fund (see “OPERATION OF FUNDS AND ACCOUNTS” herein). The 2003 B Bonds will only be delivered upon the issuance of the FSA Credit Facility. The premium on the FSA Credit Facility is to be fully paid at or prior to the issuance and delivery of the 2003 B Bonds. The FSA Credit Facility provides that upon the later of (i) one day after receipt by the 2003 B Bond Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the principal or interest payment date specified in the notice of nonpayment submitted to the 2003 B Bond Insurer, the 2003 B Bond Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the 2003 B Bonds, but in no event exceeding the FSA Credit Facility coverage, as defined in the FSA Credit Facility.

Pursuant to the terms of the FSA Credit Facility, the FSA Credit Facility coverage is automatically reduced to the extent of each payment made by the 2003 B Bond Insurer under the terms of the FSA Credit Facility and the Bond Bank is required to reimburse the 2003 B Bond Insurer for any draws under the FSA Credit Facility with interest at the rate set forth in the Indenture. Upon such reimbursement, the FSA Credit Facility is reinstated to the extent of each principal reimbursement up to but not exceeding the FSA Credit Facility coverage. The reimbursement obligation for the Bond Bank is subordinate to the Bond Bank’s obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the FSA Credit Facility, any draw on the FSA Credit Facility will be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in or credited to the Debt Service Reserve Fund, in addition to the amount available under the FSA Credit Facility, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the FSA Credit Facility and the Additional Funding Instrument will be made on a pro rata basis to fund the insufficiency.

RISKS TO OWNERS OF THE 2003 B BONDS

Purchasers of the Bonds are advised of certain risk factors with respect to the payment of the 2003 B Bonds. This discussion is not intended to be all-inclusive, and other risks may also be present.

Sources of Payments for the Bonds

The ability of the Bond Bank to pay principal of, and interest on, the 2003 B Bonds depends primarily upon the receipt by the Bond Bank of payments pursuant to the 2003 B Qualified Obligations, including interest at the rates provided therein, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no source of funds which is required to makeup for any deficiencies in the event of one or more defaults by one or more Qualified Entities in such payments on the 2003 B Qualified Obligations. There can be no representation or assurance that all of the Qualified Entities that issued the 2003 B Qualified Obligations will receive sufficient taxes or revenues, as the case may be, or otherwise have sufficient funds available to make their required payments on the 2003 B Qualified Obligations. The receipt of such revenues by any Qualified Entity is subject to, among other things, future economic conditions, actions by creditors, and other conditions which are variable and not certain of prediction. For a description of procedures for providing for the payment of the 2003 B Qualified Obligations, see the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 B BONDS - Provisions for Payment of the Qualified Obligations."

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 B BONDS - State Appropriations Mechanism"). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State

General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the 2003 B Bonds be deemed to be a debt or obligation of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 B BONDS - State Appropriations Mechanism."

Investment Risk

It is expected that the amounts held under the Indenture (the "Investment Amounts") will be invested in the Investment Agreement entered into by and among the Bond Bank, Trustee and CDC Funding Corp., or another financial institution (the "Financial Institution") currently rated in one of the two highest rating categories by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies ("S&P"). It is anticipated that the Investment Amounts, together with the earnings thereon, pursuant to the terms of the Investment Agreement will be used to pay all or a portion of principal of and interest on the 2003 B Bonds. However, there can be no assurance that the Financial Institution will be able to return the Investment Amounts and the earnings thereon on a timely basis or at the rates contemplated under the Investment Agreement. In the event that the Financial Institution fails to return the Investment Amounts or the earnings thereon on a timely basis or at the rates contemplated under the Investment Agreement, the Investment Amounts and the earnings thereon may be unavailable to pay debt service on the 2003 B Bonds. Similarly, there can be no assurance that, in the event of the insolvency, bankruptcy or similar deterioration in financial condition of the Financial Institution, the Investment Amounts and the earnings thereon will be available, if needed, to pay debt service on the 2003 B Bonds.

Tax Exemption

The Bond Bank has covenanted under the Indenture to take all actions and not to fail to take any actions required to assure the continuing exclusion of interest on the 2003 B Bonds from gross income for federal income tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the 2003 B Bonds to be taxable retroactive to the date of issuance. Also, in connection with the original purchase of each of the Qualified Obligations, the Bond Bank received an opinion of counsel by a nationally recognized firm experienced in matters relating to municipal law and matters relating to the exclusion of interest payable on obligations of states and their instrumentalities and political subdivisions from gross income under federal tax law, acceptable to the Bond Bank and the Trustee (an "Opinion of Bond Counsel"), for the Qualified Entity to the effect that, conditioned upon continuing compliance by a Qualified Entity with certain covenants made in connection with the issuance of such Qualified Obligations, the interest on the Qualified Obligations is excluded from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Qualified Obligations could become taxable in the event that the Qualified Entity fails to comply with certain of such covenants, including without limitation the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to its Qualified Obligations under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Qualified Obligations from being deemed to be "private activity bonds" under the Internal Revenue Code of 1986, as amended and in effect on the date of

issuance of the 2003 B Bonds and any applicable regulations promulgated thereunder (the "Code"). Such an event could in turn adversely affect the exempt status of the interest on all of the 2003 B Bonds retroactive to the date of issuance. See the caption "TAX MATTERS." The Bond Bank is not aware of any circumstances that would cause the interest on the Qualified Obligations to be includable in gross income for federal income tax purposes under the Code, but has not undertaken any investigation in connection with this Official Statement.

Limited Remedies

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon the occurrence of an Event of Default under the Indenture or under the terms of any of the Qualified Obligations or the Investment Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the "United States Bankruptcy Code"), the remedies provided in the Indenture, the Qualified Obligations, and the Investment Agreement may not be readily available or may be limited.

Bond Insurance

The 2003 B Bond Insurer has issued the Policy, guaranteeing the payment of the principal (but not premium) of the 2003 B Bonds due at maturity, but not as a result of the acceleration thereof (unless consented to by the 2003 B Bond Insurer), and interest on the 2003 B Bonds due on the interest payment dates therefor. There can be no assurance that the 2003 B Bond Insurer will be financially able to meet its contractual obligations under the 2003 B Bond Insurance Policy. A form of the 2003 B Bond Insurance Policy is attached hereto as Appendix F. Certain information with respect to the 2003 B Bond Insurer is set forth under the caption "BOND INSURANCE" herein. Such information was provided by the 2003 B Bond Insurer and no representation is made as to the adequacy or the accuracy thereof.

So long as the 2003 B Bond Insurer performs its obligations under the 2003 B Bond Insurance Policy, the 2003 B Bonds cannot be accelerated without the prior written consent of the 2003 B Bond Insurer. Furthermore, so long as the 2003 B Bond Insurer performs its obligations under the Policy, the 2003 B Bond Insurer may direct any remedies that the Bondholders may exercise under the Indenture.

In the event that the 2003 B Bond Insurer is unable to make payments of principal of and interest on the 2003 B Bonds as such payments become due, the 2003 B Bonds are payable solely from moneys received by the Trustee as set forth in the Indenture.

In the event that the 2003 B Bond Insurer is required to pay principal of or interest on the 2003 B Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the 2003 B Bonds.

PLAN OF FINANCING

The Bond Bank will use a portion of the proceeds of the 2003 B Bonds to purchase the 2003 B Qualified Obligations identified in the table in Appendix B of this Official Statement. Each of the Qualified Entities issuing the 2003 B Qualified Obligations have represented to the Bond Bank that the Qualified Entity will use the proceeds received by it in the sale of the 2003 B Qualified Obligations to the Bond Bank to pay for a portion of the costs of the public works projects, all as identified in its respective Authorizing Instrument.

APPLICATION OF PROCEEDS OF THE 2003 B BONDS

Set forth below is a summary of the estimated sources and uses of the proceeds of the 2003 B Bonds, exclusive of accrued interest from the dated date of the 2003 B Bonds to the date of delivery, which will be deposited in the General Account of the General Fund:

Sources:

Principal amount	\$8,885,000.00
Net original issue discount	<u>(15,940.55)</u>
Total	<u>\$8,869,059.45</u>

Uses:

Acquisition of 2003 B Qualified Obligations	\$8,634,167.55
Costs of issuance	120,000.00
Underwriter's Discount	66,637.50
Premium for 2003 B Bond Insurance Policy	28,893.81
Premium for FSA Credit Facility	18,058.63
Capitalized interest	<u>1,301.96</u>
Total	<u>\$8,869,059.45</u>

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement, an aggregate principal amount of approximately \$2,247,850,000 in separate program obligations not secured by the Indenture, approximately \$276,360,000 of which obligations are secured by debt service reserve funds eligible for annual appropriation by the State General Assembly.

Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financing, if any, will be secured separately from the 2003 B Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

The Act

Pursuant to the Act, the purpose of the Bond Bank is to assist "qualified entities", defined in the Act to include, in part, political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, and any organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities. The Bond Bank provides such assistance through programs of among other things, purchasing the bonds, notes or evidences of indebtedness of such qualified entities. Under the Act, qualified entities include entities such as cities, towns, counties, school corporations, library corporations, special taxing districts, state educational institutions, charter schools and nonprofit corporations and associations which lease facilities or equipment to such entities. Each of the entities listed in Appendix B is a "qualified entity" within the meaning of the Act.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to: (i) a loan to or a lease or an agreement with a qualified entity; (ii) a purchase, acquisition or a sale of qualified obligations or other investments; or (iii) the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other Program Expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with the purchase of any qualified obligations, consider the need, desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to: (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption; and (v) obligations of certain types of qualified entities that have separate limits.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;

3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;

4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business or act as a savings bank, savings association or any other kind of financial institution; or

5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana, Member, Indiana State Board Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority.

Clark H. Byrum, Vice Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977

to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and NorCen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Russell Breeden, III, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to February, 2002; Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Morris H. Mills, Director; term expires July 1, 2003. Residence: Ladoga, Indiana. Partner, Mills Bros. Farms; Member, Indiana State Senate, 1972 to 2000; Member, Indiana State House of Representatives, 1968 to 1972; Director and Officer, Maplehurst Group, 1954 to 1996.

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991 -August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Marni McKinney, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman, First Indiana Bank; Vice Chairman & Chief Executive Officer; First Indiana Corporation; Board of Directors, Indianapolis Public Transit Authority; Member, America's Community Bankers Association.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of the Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 14 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

REVENUES, FUNDS AND ACCOUNTS

The Indenture creates certain Funds and Accounts identified in more detail below. Pursuant to the Indenture, the Trustee will deposit the net proceeds of the 2003 B Bonds,

together with other moneys into these Funds and Accounts as described below. Appendix D sets forth a summary of certain provisions of the Indenture.

Creation of Funds and Accounts

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

1. General Fund - comprised of the following:
 - (a) General Account
 - (b) Bond Issuance Expense Account
 - (c) Redemption Account
2. Debt Service Reserve Fund
3. Rebate Fund

Deposit of Net Proceeds of the 2003 B Bonds, Revenues and Other Receipts

On the date of delivery of the 2003 B Bonds, the Trustee will deposit the proceeds from the sale of the 2003 B Bonds, together with other moneys made available by the Bond Bank, as follows:

(a) Into the Bond Issuance Expense Account of the General Fund, the amount of \$120,000.00 in order to pay the Costs of Issuance (other than the underwriter's discount retained by the Underwriters and the premiums for the 2003 B Bond Insurance Policy and FSA Credit Facility paid by the Underwriters directly to the 2003 B Bond Insurer for and on behalf of the Bond Bank); and

(b) Into the General Account of the General Fund, the sum of \$8,634,167.55 which will be used to purchase the 2003 B Qualified Obligations, and \$28,150.85, which will be used to pay a portion of the interest on the 2003 B Bonds on August 1, 2003.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the 2003 B Bonds, and moneys received by the Bond Bank from the sale or redemption prior to maturity of the 2003 B Qualified Obligations) into the General Account of the General Fund and will deposit any moneys received from the sale or redemption prior to maturity of the 2003 B Qualified Obligations into the Redemption Account of the General Fund. Thereafter, the Trustee will deposit the proceeds of any Refunding Bonds as provided under the Supplemental Indenture authorizing the issuance of such Refunding Bonds.

OPERATION OF FUNDS AND ACCOUNTS

General Fund

General Account. The Trustee will deposit in the General Account of the General Fund all moneys required to be deposited therein pursuant to the Indenture. The Trustee will invest such funds in accordance with the Indenture and will make the following payments from the

General Account on the specific dates, and if there are not sufficient funds to make all the payments required, with the following order of priority:

(a) On the date of initial delivery of the 2003 B Bonds and upon the submission of requisitions of the Bond Bank signed by an Authorized Officer, stating that all of the requirements with respect to such financing set forth in the Indenture have been or will be complied with, an amount sufficient to purchase the 2003 B Qualified Obligations;

(b) On or before 10:00 A.M. in the city in which the Trustee is located, on the business day next preceding each Interest Payment Date, to the Trustee such amount as shall be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;

(c) As soon as funds become available, and only to the extent necessary, to the Debt Service Reserve Fund, sufficient amounts to assure that the Reserve Requirement is met;

(d) At such times as shall be necessary, amounts to pay the Program Expenses, but only to the extent contemplated in the most recent Cash Flow Certificate;

(e) On or before thirty (30) days after each anniversary of the issuance of the 2003 B Bonds, any amount necessary to comply with any Rebate Fund requirements; and

(f) After making such deposits and disbursements and after the Trustee will make a determination of the amounts reasonably expected to be received in the form of Qualified Obligation Payments under the Indenture in the succeeding twelve months, to any other fund or account maintained by the Bond Bank, regardless of whether such fund or account is subject to the lien of the Indenture, all moneys in the General Fund which, together with such expected receipts for the succeeding twelve months are in excess of the amounts needed to pay principal of and interest on the Bonds within the immediately succeeding twelve-month period. No moneys shall be so transferred unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Bond Issuance Expense Account. The Trustee will disburse the amounts held in the Bond Issuance Expense Account upon receipt of invoices or requisitions certified by the Executive Director of the Bond Bank to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs. On July 15, 2003, any amounts remaining in the Bond Issuance Expense Account will be transferred to the General Account, at which time the Bond Issuance Expense Account may, at the direction of the Bond Bank, be closed.

Redemption Account. (a) The Trustee will deposit in the Redemption Account all moneys received upon the sale or redemption prior to maturity of the Qualified Obligations and will disburse the funds in the Redemption Account as follows:

(1) On the fifteenth day of each month, to the General Account amounts of moneys equal to the amount of principal which would have been payable during the following month if such Qualified Obligation had not been sold or redeemed prior to maturity.

(2) On the second business day next preceding each Interest Payment Date if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, the Trustee shall transfer to the General Account moneys in the Redemption Account not already committed to the redemption of Bonds for which notice of redemption has been given.

(3) After making provisions for the required transfers to the General Account as described in subparagraphs (1) and (2) above, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, (ii) to the extent there are any excess moneys in the Redemption Account, to the General Account, (iii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption, or (iv) to make investments of such moneys until the payment of Bonds at their maturity or maturities as directed by an Authorized Officer in accordance with the Indenture. Such purchase price may not, however, exceed the Redemption Price which would be payable on the next ensuing date on which the Bonds of the Series so purchased are redeemable according to their terms unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that the purchase at a price in excess of the Redemption Price will not result in Revenues, together with moneys expected to be held in the Funds and Accounts, being less than an amount equal to debt service on all Outstanding Bonds along with Program Expenses, if any. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery thereof from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of sixty (60) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption under the provisions of the Indenture or the Supplemental Indenture authorizing the issuance of such Bonds. The Trustee will deliver the Bonds so purchased to the Trustee within five (5) days from the date of delivery to the Trustee.

(4) In the event that the Trustee is unable to purchase Bonds as described in clause (iii) of subparagraph (3) above, then, subject to restrictions on redemption set forth in the Indenture, the Trustee will call for redemption on the next redemption date such amount of Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank as will exhaust the Redemption Account as nearly as may be possible at the applicable Redemption Price. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

(b) The Trustee may, upon written direction from the Bond Bank, transfer any moneys in the Redemption Account to the General Account if the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer and after any transfer from the General Account to the Bond Bank, Revenues, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Debt Service Reserve Fund

The Trustee will deposit in the Debt Service Reserve Fund all moneys required to be deposited therein pursuant to the Indenture, will invest such funds, and, except as provided in the Indenture, will disburse the funds held in the Debt Service Reserve Fund solely to the General Account for the payment of interest on and principal of the Bonds and only in the event that moneys in the General Account are insufficient to pay principal of and interest on the Bonds after all of the transfers thereto required to be made under the Indenture from the Redemption Account have been made. Amounts in the Debt Service Reserve Fund in excess of the Reserve Requirement will be transferred to the General Account or the Redemption Account, as directed by the Bond Bank.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the 2003 B Bonds a Debt Service Reserve Fund Credit Facility. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in the Debt Service Reserve Fund in excess of that needed for the Debt Service Reserve Fund to be equal to the Reserve Requirement will be moved in accordance with the Indenture, subject to the satisfaction of any Debt Service Reserve Fund Reimbursement Obligations from such excess as described below. If a disbursement is made pursuant to a Debt Service Reserve Fund Credit Facility, the Bond Bank will be obligated (but solely from the appropriations, if any, made and available pursuant to the Indenture or if otherwise available from the Trust Estate) within twelve months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Credit Facility or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement. The Trustee will include in the total amount held in the Debt Service Reserve Fund an amount equal to the maximum principal amount which could be drawn by the Trustee under any such Debt Service Reserve Fund Credit Facility on deposit with the Trustee. Amounts required to be deposited in the Debt Service Reserve Fund will include any amount required to satisfy a Debt Service Reserve Fund Reimbursement Obligation for any Debt Service Reserve Fund Credit Facility. The Trustee is authorized to move the amounts to satisfy the Debt Service Reserve Fund Reimbursement Obligations to the provider of the Debt Service Reserve Fund Credit Facility. (See "DEBT SERVICE RESERVE FUND CREDIT FACILITY" herein.)

Rebate Fund

The Trustee will establish and maintain, so long as any Bonds are outstanding and are subject to a requirement that arbitrage profits be rebated to the United States, a separate fund to be known as "Rebate Fund." The Trustee will make information regarding the Bonds and

investments hereunder available to the Bond Bank and will make deposits in and disbursements from the Rebate Fund in accordance with the written instructions received from the Bond Bank and pursuant to the Indenture, will invest the Rebate Fund pursuant to written investment instructions received from the Bond Bank and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made by the Bond Bank, the Trustee will upon receipt of written directions from the Bond Bank accept such payment for the benefit of the Bond Bank and make transfers of moneys from the General Account to the Rebate Fund to comply with such direction. If amounts in excess of that required to be rebated to the United States of America accumulate in the Rebate Fund, the Trustee will upon written direction from the Bond Bank transfer such amount to the General Account. Records of the determinations required by the Indenture and the investment instructions must be retained by the Trustee until six (6) years after the Bonds are no longer Outstanding.

Not later than sixty (60) days after the fifth anniversary date of the date of issuance of the 2003 B Bonds, and every five (5) years thereafter, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such payment date, and not later than sixty (60) days after the final retirement of the Bonds, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such retirement date. Each payment required to be paid to the United States pursuant to the Indenture will be, together with a properly completed Internal Revenue Service Form 8038-T, filed with the Internal Revenue Service Center, Ogden, Utah 84201.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebates and the fees, charges and expenses of the Trustee will be distributed to the Bond Bank.

LITIGATION

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation: restraining or enjoining the issuance, sale, execution or delivery of the 2003 B Bonds; seeking to prohibit any transactions contemplated by the Indenture; or in any way contesting or affecting the validity of the 2003 B Bonds or the 2003 B Qualified Obligations or any proceedings of the Bond Bank taken with respect to the issuance or sale of the 2003 B Bonds, or the Pledges (as hereinafter defined under the caption "ENFORCEABILITY OF REMEDIES") or application of any moneys or security provided for payment of the 2003 B Bonds or the 2003 B Qualified Obligations. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present directors or other officers of the Bond Bank to their respective offices is being contested.

TAX MATTERS

In the opinion of Bingham McHale LLP, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the 2003 B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the 2003 B Bonds (the "Code"). The opinion of Bingham McHale LLP is based on certain certifications, covenants and representations of the Bond Bank and the Qualified Entities issuing the 2003 B Qualified Obligations and is conditioned on continuing compliance therewith. In the opinion of Bingham McHale LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the 2003 B Bonds is exempt from income taxation in the State of Indiana for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the 2003 B Bonds as a condition to the exclusion from gross income of interest on the 2003 B Bonds for federal income tax purposes. Noncompliance with such requirements may cause interest on the 2003 B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the 2003 B Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the 2003 B Bonds would be materially and adversely affected. The Tax Covenants include covenants that: (i) the Bond Bank and 2003 B Qualified Entities will not take or fail to take any action with respect to the 2003 B Bonds, if such action or omission would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the 2003 B Bonds under Section 103 of the Code, and the Bond Bank and 2003 B Qualified Entities will not act in any other manner which would adversely affect such exclusion; (ii) the Bond Bank and 2003 B Qualified Entities will not make any investment or do any other act or thing during the period that the 2003 B Bonds are outstanding which would cause the 2003 B Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code; and (iii) if required by the Code, the Bond Bank will rebate any necessary amounts to the United States of America. It is not an event of default under the Indenture or the Authorizing Instruments if interest on the 2003 B Bonds or the 2003 B Qualified Obligations, respectively, is not excluded from gross income for federal income tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the 2003 B Bonds.

The interest on the 2003 B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the 2003 B Bonds is includable in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The 2003 B Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from

gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the 2003 B Bonds is excluded from gross income for federal income tax purposes and exempt from certain State income tax, the accrual or receipt of interest on the 2003 B Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Except as expressly set forth above, Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the 2003 B Bonds should consult their own tax advisors with regard to other tax consequences of owning the 2003 B Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the 2003 B Bonds. Prospective purchasers of the 2003 B Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the 2003 B Bonds.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of the 2003 B Bonds maturing on February 1, 2006; February 1, 2011 through and including February 1, 2016; February 1, 2018; and February 1, 2023; (collectively, the "Discount Bonds"), is less than the principal amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the inside front cover of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds, will be treated as "original issue discount." The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending on February 1 and August 1 (with straight line interpolation between compounding dates). An owner who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity will treat the accrued amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds

should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial offering price of the 2003 B Bonds maturing on February 1, 2004; February 1, 2005; February 1, 2007 through and including February 1, 2010; and February 1, 2017 (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section 171(b) of the Code. No income tax deduction for the amount of Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of the Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the holders of the 2003 B Bonds upon a default under the Indenture, to the Trustee or the Bond Bank under the 2003 B Qualified Obligations, the purchase agreements for the 2003 B Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the pledges securing the 2003 B Bonds or the 2003 B Qualified Obligations described herein (collectively the "Pledges"), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided (or which may be provided) in the Indenture, the purchase agreements for the 2003 B Qualified Obligations, the 2003 B Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under Federal and State environmental laws, certain liens may be imposed on property of the Bond Bank or the Qualified Entities from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the Qualified Obligation Payments pledged to owners of the 2003 B Bonds under the Indenture or over the liens pledged to the owner of the 2003 B Qualified Obligations under the Authorizing Instruments.

The various legal opinions to be delivered concurrently with the delivery of the 2003 B Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by public policy. These exceptions would encompass any exercise of the Federal, State or local police powers in a manner consistent with the public health and welfare. Enforceability of the Indenture, the purchase agreements for the 2003 B Qualified Obligations, the Authorizing Instruments and the Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance, sale and delivery of the 2003 B Bonds are subject to the approval of Bingham McHale LLP, Indianapolis, Indiana, Bond Counsel, whose approving legal opinion will be delivered with the 2003 B Bonds, substantially in the form attached hereto as Appendix C. Certain legal matters will be passed on by Issuer's Counsel, Barnes & Thornburg, Indianapolis, Indiana, and Bose McKinney & Evans LLP, Indianapolis, Indiana, counsel for the Underwriters.

RATING

S&P has assigned a rating of "AAA" to the 2003 B Bonds. Such rating is conditional upon the issuance of the 2003 B Bond Insurance Policy. This rating reflects only the view of S&P and an explanation thereof may be obtained from S&P at 55 Water Street, New York, New York 10041. Such rating is not a recommendation to buy, sell or hold the 2003 B Bonds. There is no assurance that such rating will remain in effect for any given period of time or that such

rating will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. The Underwriters have undertaken no responsibility either to bring to the attention of the owners of the 2003 B Bonds any proposed revision or withdrawal of the rating of the 2003 B Bonds or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of rating may have an adverse effect on the market price or marketability of the 2003 B Bonds.

UNDERWRITING

The 2003 B Bonds are being purchased by the Underwriters set forth on the cover page of this Official Statement. The Underwriters have agreed to purchase the 2003 B Bonds at an aggregate purchase price of \$8,782,318.40, which represents the par amount of \$8,885,000.00, less the underwriters' discount of \$66,637.50, less net original issue discount of \$15,940.55, less the premiums for the 2003 B Bond Insurance Policy and FSA Credit Facility of \$46,952.44, plus accrued interest of \$26,848.89 on the 2003 B Bonds, pursuant to a purchase contract entered into by and between the Bond Bank and the Underwriters. Such purchase contract provides that the Underwriters will purchase all of the 2003 B Bonds if any are purchased.

The Underwriters have agreed to make a bona fide public offering of all of the 2003 B Bonds at prices not in excess of the initial public offering prices set forth or reflected inside the cover page of this Official Statement. The Underwriters may sell the 2003 B Bonds to certain dealers (including dealers depositing 2003 B Bonds into investment trusts) and others at prices lower than the offering prices set forth inside the cover page hereof.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The accuracy of certain mathematical computations showing that payments on the Qualified Obligations, together with other available revenues, have been structured to be sufficient to pay principal of and interest on the 2003 B Bonds when due will be verified by Crowe, Chizek and Company LLP, independent certified public accountants. Such verifications shall be based upon certain information and assumptions supplied by the Bond Bank and the Underwriters.

2003 B BONDS AS LEGAL INVESTMENTS

Pursuant to the Act, all Indiana financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees, and other fiduciaries may legally invest sinking funds, money, or other funds belonging to them or within their control in bonds or notes issued by the Bond Bank.

AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION

Separate audited financial reports of the State and the Bond Bank, respectively, (collectively, the "Financial Reports") are prepared annually and are presently available for the year ended June 30, 2001, and prior years. No financial reports related to the foregoing entities are prepared on an interim basis and there can be no assurance that there have not been material

changes in the financial position of the foregoing entities since the date of the most recent available Financial Statements. Upon request and receipt of payment for reasonable copying, mailing and handling charges, the Bond Bank will make available copies of the most recent Financial Reports, any authorizing or governing instruments defining the rights of owners of the 2003 B Bonds or the owners of the Qualified Obligations and available financial and statistical information regarding the Bond Bank and the Qualified Entities. Requests for documents and payments therefor should be directed and payable to the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204.

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), and the terms of the Continuing Disclosure Undertaking Agreement (the "Undertaking"), among the State, the Bond Bank and the Trustee, the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, the following annual financial information and operating data, as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") and to the Indiana state information depository, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ended June 30, 2002, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2002, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR and to the State Depository, if any, within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2003, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix A - "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

(The information described in items 1 and 2 above is referred to as the "Annual Information.")

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Depository, if any, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;

- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State or the Bond Bank may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above.

While the Bonds are outstanding, the 2003 B Qualified Entities have agreed to provide to the Bond Bank the preceding event notices with regard to the 2003 B Qualified Obligations, with respect to which they are obligated persons, if material, and in a timely manner, and each has agreed to provide the following information while any 2003 B Qualified Obligations, with regard to which they are obligated persons, are outstanding:

Financial Information. An update of the financial information and operating data relating to such entities of the same nature as that contained in Appendix B to each NRMSIR, to the State Depository, if any, and to the Bond Bank, within 180 days after each December 31, commencing with the calendar year ending December 31, 2002.

Audited Financial Statements. To each NRMSIR, to the State Depository, if any, and to the Bond Bank, when and if available, the audited financial statements of such entities as prepared and examined by the State Board of Accounts for each twelve (12) month period ending December 31, commencing with the year ending December 31, 2002, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt of such statements from the State Board of Accounts.

Failure to Disclose

In a timely manner, the Trustee shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the State to provide the Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR and to the State Depository, if any, along with the Annual Information required as specified above and containing such information as is still available, will satisfy the State's undertaking to provide the Annual Information. To the extent available, the State will cause to be filed along with the Annual Information operating data similar to that which can no longer be provided.

Accounting Principles

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

Remedies

The Undertaking is solely for the benefit of the holders and beneficial owners of the Bonds and creates no new contractual or other rights for the SEC, any underwriters (other than the Underwriters), brokers, dealers, municipal securities dealers, potential customers, or other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State or the Bond Bank. This remedy may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State to comply with its disclosure obligations under the Undertaking.

Modification of Undertaking

The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Trustee) or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds as required under the Indenture at the time of such amendment or modification; or (b) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by law or the Rule, as then in effect.

The Annual Information for the fiscal year during which any such amendment or modification occurs that contains the amended or modified Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of Annual Information being provided.

Copies of the Undertaking are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five years, the Bond Bank, the State, and 2003 B Qualified Entities have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the 2003 B Bonds, the security for the payment of the 2003 B Bonds and the rights of the owners thereof. During the period of the offering, copies of drafts of such documents may be examined at the offices of the Underwriters. Following delivery of the 2003 B Bonds, copies of such documents may be examined at the offices of the Bond Bank.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinions or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof. This Official Statement is submitted in connection with the issuance and sale of the 2003 B Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Bond Bank, the Qualified Entities, the Trustee or the Underwriters and the purchasers or owners of any 2003 B Bonds. The delivery of this Official Statement has been duly authorized by the Board of Directors of the Bond Bank.

INDIANA BOND BANK

By: /s/ Tim Berry
Tim Berry, Chairman, Ex Officio

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APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA

APPENDIX A

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

TABLE OF CONTENTS

I. INTRODUCTION.....	1
II. STRUCTURE OF STATE GOVERNMENT.....	1
Division of Powers.....	1
Executive Department.....	1
Legislative Department.....	2
Judicial Department.....	2
III. FISCAL POLICIES.....	3
Fiscal Years.....	3
Accounting System.....	3
Fund Structure.....	3
Budget Process.....	4
State Budget Agency.....	4
Budget Committee.....	5
Budget Development.....	5
Revenue Projections.....	5
Budget Report.....	5
Appropriations.....	6
Intra-Agency Transfers.....	6
Contingency Appropriations.....	6
State Board of Finance.....	6
Cash Management and Investments.....	7
Audits.....	7
Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the State.....	7
IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS.....	8
Operating Revenues.....	8
Major General Fund and PTR Fund Revenue Sources.....	9
Sales and Use Taxes.....	9
Corporate Income Taxes.....	9
Individual Adjusted Gross Income Tax.....	9
Wagering Tax.....	9
Other Operating Revenues.....	10
Revenue History.....	10
Lottery and Gaming Revenues.....	11
Operating Expenditures.....	11
Local School Aid.....	11
Higher Education.....	12
Property Tax Relief.....	12
Medicaid.....	13
Department of Correction.....	14
Other.....	14
Expenditure Limits.....	14
Fund Balances.....	15
Rainy Day Fund.....	15
Tuition Reserve.....	15
Medicaid Reserve.....	15
Combined General and PTR Fund.....	16
Financial Results of Operations.....	16

V. STATE INDEBTEDNESS	20
Constitutional Limitations on State Debt.....	20
Other Debt, Obligations	20
Obligations Payable from Possible State Appropriations	20
State Office Building Commission	20
Transportation Finance Authority—Highway Financing.....	21
Transportation Finance Authority—Aviation Financing	21
Recreational Development Commission	21
Indiana Bond Bank.....	22
Debt Statement—Obligations Payable from Possible State Appropriations.....	22
Debt Service Schedule—Obligations Payable from Possible State Appropriations	24
Debt Ratios	26
Authorized but Unissued Debt.....	26
Contingent Obligations	27
Transportation Finance Authority—Toll Road Financing	27
Indiana Bond Bank.....	27
Development Finance Authority	28
Debt Statement—Contingent Obligations	29
Other Entities Issuing Debt.....	30
VI. STATE RETIREMENT SYSTEMS	30
Public Employees’ Retirement Fund	31
Other State Plans.....	32
State Teachers’ Retirement Fund.....	32
State Police Pension Trust	34
VII. ECONOMIC AND DEMOGRAPHIC INFORMATION	34
General.....	34
Population	35
Employment.....	35
Income	37
Gross State Product.....	38
Exports.....	38
VIII. LITIGATION	39

SCHEDULE OF TABLES

Table IV-1	State Operating Revenues--Growth in State Operating Revenues	10
Table IV-2	Local School Aid Appropriations and the State's Percentage Contribution to the Local School General Fund Budget	12
Table IV-3	Higher Education Appropriations and Enrollment at State-Supported Universities	12
Table IV-4	Property Tax Relief Appropriations	13
Table IV-5	Medicaid Appropriations and Enrollment in Medicaid	13
Table IV-6	Department of Corrections Appropriations and Prison Population	14
Table IV-7	Other Appropriations by Fiscal Year	14
Table IV-8	General Fund and Property Tax Replacement Fund Combined Statement of New Actual and Estimated Unappropriated Reserve	19
Table V-1	Schedule of Long Term Debt Obligations Payable from Possible State Appropriations	23
Table V-2	Scheduled Principal and Interest Payments Payable from Possible State Appropriations	25
Table V-3	Ratios of Outstanding Debt Subject to Possible Appropriation to Population and Personal Income	26
Table V-4	Schedule of Long Term Debt Contingent Obligations	29
Table VI-1	Indiana's Public Employees Retirement Fund (State-Related Portion)	31
Table VI-2	Summary of Results of Actuarial Valuation	32
Table VI-3	Indiana State Teachers' Retirement Fund Schedule of Funding Progress	34
Table VII-1	Population of Indiana and Selected Indiana MSAs	35
Table VII-2	Demographic Profile	35
Table VII-3	Year-Ending Non-Farm Employment	36
Table VII-4	Year-ending Non-Farm Employment by Sector	36
Table VII-5	Unemployment Rate	36
Table VII-6	Growth in Per Capita Personal Income	37
Table VII-7	Growth in Median Household Income	37
Table VII-8	Poverty Rates for IN and the US	38
Table VII-9	Gross State Product (GSP) and Gross Domestic Product (GDP) in Current Dollars	38
Table VII-10	Indiana Exports	39
Table VII-11	Indiana's Leading Export Industries and Definitions	39

I. INTRODUCTION

This Financial and Economic Statement (the “Statement”) for the State of Indiana (the “State”) includes a discussion of the State’s economic and fiscal condition, the results of operations for the past two years and revenue and expenditure projections through the end of the biennium ending June 30, 2005. The information has been compiled on behalf of the State by the Indiana State Budget Agency and the Public Finance Office and includes information and data taken from the State Budget Agency’s unaudited year-end budget reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled “Litigation” has been furnished by the office of the State Attorney General.

The State expects to update the entire Statement at least annually after the close of each Fiscal Year (as defined herein). The status of this Statement or any updates or supplements may be obtained by contacting the Indiana State Budget Agency, Room 212, State House, Indianapolis, IN 46204, Tel: (317) 232-5610 or the Public Finance Office, State of Indiana, One North Capitol, Suite 900, Indianapolis, IN 46204, Tel: (317) 233-4332. This Statement should be read in its entirety together with any updates or supplements.

II. STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to “take care that the laws are faithfully executed.” The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). If the Governor vacates the office or is unable to discharge the Governor’s duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State Constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term,

after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

III. FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the 12-month period beginning on July 1 and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the Statewide accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the State Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The State Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for instance, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the State Auditor. The PTR Fund is funded from 40% of State sales and use tax revenues, a portion of individual income tax receipts, and a portion of Gaming Revenues. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a Special Revenue Fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that

reason, the General Fund and PTR Fund are sometimes discussed in this Appendix A as a single, combined fund. See “FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund.”

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children’s Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds are used to account for a government’s business-type activities. They use the accrual basis of accounting like the private sector. There are two types of Proprietary Funds, Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for provision of services to customers outside the government—i.e., citizens. Examples are the State Lottery Commission and Inns and Concessions. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. Examples are the State Office Building Commission and the Recreational Development Commission.

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government’s own programs. They use the accrual basis of accounting. Indiana has three types of these funds: Pension Trust Funds, Private-purpose Trust Funds, and Agency Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Examples are the State Police Pension Fund and the Employees’ Deferred Compensation Fund. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund. Agency funds are used to account for situations where the government’s role is purely custodial, such as the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

The State Constitution prohibits the General Fund from falling below zero. The Governor and State Budget Director have the authority to balance the budget through administrative actions. The State Budget Agency has the ability to transfer appropriations from one account to another within an agency as long as the accounts do not have non-reversion language. The Budget Agency also has broad authority to control spending through the allotment process as long as the reduction is “necessary” to prevent a deficit financial situation. Pursuant to Section 35 of HEA 1001-2001 (the 2001-2003 budget bill): “Subject to section 30 of this Act as it relates to the budget committee, the budget agency, with the approval of the governor, may withhold allotments of any or all appropriations as contained in this Act for the 2001-2003 biennium, if it is considered necessary to do so in order to prevent a deficit financial situation.”

In addition, the State Budget Director can withhold funds obligated under executory contracts; each State contract contains a mandatory clause, conditioning payments on appropriation of adequate funds. In the event the State Budget Director makes a written determination that funds are not appropriated or otherwise available to support the continuation of performance of the agreement by the State, such Agreement shall be canceled.

Budget Committee. The State Budget Committee consists of the State Budget Director and four senior State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President *pro tempore* of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative branches and provide fiscal information to their respective caucuses.

Budget Development. The State's budget process is set out in statute. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections Revenue projections are prepared by the Indiana Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. The Budget Committee members jointly appoint one additional individual from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forecast Committee does provide the economic assumptions used by the Technical Forecast Committee in preparing the State's revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative branches are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through the hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bill.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may, with the approval of the Governor and Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Board") consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State

funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting “casual deficits” in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Board has never negotiated a loan to meet a “casual deficit” in State revenues, nor has the Board exercised its authority to levy a tax.

Cash Management and Investments

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, the Property Tax Replacement Fund (“PTR Fund”), and more than 60 other funds. Indiana Code 5-13 sets forth certain limitations on the types and amounts of investments in which the State Treasurer may invest State funds. These investments include securities that are (a) backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and (b) issued by (i) the United States Treasury, (ii) a federal agency, (iii) a federal instrumentality, or (iv) a federal government sponsored enterprise. Additionally, investments may include repurchase agreements fully collateralized by securities listed in (a) or (b) above and certain deposit accounts insured by the Indiana Public Deposit Insurance Fund. No more than twenty-five percent (25%) of the total portfolio invested by the State Treasurer may be made in the foregoing securities to the extent such securities have a maturity of two (2) to five (5) years and no such security may have a maturity in excess of five (5) years.

Audits

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the Indiana Comprehensive Annual Financial Report (CAFR) prepared by the State Auditor.

Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the State

The Indiana Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2002 is incorporated herein by reference. While and so long as the State is deemed to be an “obligated person” under the meaning of Rule 15c2-12 of the Securities and Exchange Commission, it will file annually the Indiana Comprehensive Annual Financial Report with the following Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) in accordance with SEC Rule 15c2-12:

- (i) Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
E-Mail: munis@bloomberg.com

- (ii) Interactive Data NRMSIR
Attn: Disclosure
100 William Street, 10th Floor
New York, New York 11038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-Mail: nrmsir@interactivedata.com
- (iii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
E-Mail: nrmsir@dpcdata.com
- (iv) Standard & Poor's (NRMSIR)
Attn: Repository
55 Water Street, 45th Floor
New York, New York 10041
Telephone: (212) 438-4568
Facsimile: (212) 438-3975
E-Mail: joan_horai@sandp.com

A copy of the Indiana Comprehensive Annual Financial Report for Fiscal Year June 30, 2002 may be obtained from the NRMSIRs or from the State Budget Agency, State of Indiana, Statehouse, Room 212, Indianapolis, Indiana 46204, Attention: State Budget Director (317) 232-5610. Additionally, the Indiana Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2002 may be found on the Internet at:

<http://www.in.gov/idfa/pfo>

The Indiana Comprehensive Annual Financial Report that can be found at the foregoing website is incorporated herein by reference thereto and intended to provide bondholders, analysts, broker-dealers and potential investors with financial information regarding the State prepared and published by the Auditor of the State. It must be read in conjunction with this statement. It is not, by itself, intended to present investment information regarding the State's bond programs, within the meaning of applicable securities laws. Investment decisions should be made only after full review of the official statement and other relevant matters in connection with a particular bond issue.

IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as State Operating Revenues ("Operating Revenues"). Operating Revenues are defined as the total of General Fund and PTR Fund revenues forecasted by the Technical Forecast Committee. Total Operating Revenues together with "DSH revenues" (as hereinafter defined) transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the

State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. DSH is an acronym for "Disproportionate Share for Hospitals (federal funds)," and DSH revenues constitute extra Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Major General Fund and PTR Fund Revenue Sources

Sales and use, corporate and individual income taxes are the three primary sources of State Operating Revenues. In addition, legislation passed by the 2002 General Assembly, directs the deposit of wagering taxes into the PTR Fund, making wagering taxes another source of State Operating Revenues beginning in FY 2003. Table IV-1 set forth below provides annual revenues by source and growth rates over time. The following is a summary description of each of those revenue sources.

Sales and Use Taxes. The General Assembly increased the sales tax rate from 5.0% to 6.0% effective December 1, 2002. This tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. The sales and use tax rate was last increased in FY 1983.

Corporate Income Taxes. As part of a major tax restructuring in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). The legislation also imposed a tax on utility receipts. These provisions are effective January 1, 2003.

The adjusted gross income tax is applicable to corporations doing business in the State. The tax rate is 8.5% (increased from 3.4% by the General Assembly effective January 1, 2003) of adjusted gross income derived from sources within the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

The utilities receipts tax is based on the gross receipts from retail utility sales. It is imposed at a rate of 1.4%, effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents having income derived from Indiana sources is taxed at 3.4%. All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund and PTR Fund. State individual income tax rates were last increased effective CY 1988.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to FY 2003 all wagering taxes earned by the State were deposited into the Build Indiana Fund (BIF). Legislation passed by the Special Session of the 2002 General Assembly changed the collection and distribution of wagering taxes and also allowed riverboats to implement flexible scheduling, which enables patrons to gamble while a riverboat is docked. The legislation imposes a graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first \$25 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25 million and \$50 million, 25% of receipts between \$50 million and \$75 million, 30% of receipts between \$75 million and \$150 million, and 35% of adjusted gross receipts in excess of \$150 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, as of August 2002, all Indiana riverboats had implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first \$33 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties that have riverboats, and 75% goes to the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the BIF. This total is equal to \$250 million minus amounts deposited in the BIF from Lottery profits, pari-mutuel taxes, and tax and fee revenue from charitable gaming.

Other Operating Revenues. Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack to \$0.555 per pack and increased the tax on other tobacco products by three percent.

Revenue History

Annual percentage changes for each component of Operating Revenues are reflected in Table IV-1 shown below. The table also includes actual revenue for prior fiscal years as well as forecasted revenue for fiscal years 2003-2005.

Table IV-1
State Operating Revenues
Growth in State Operating Revenues

State Revenue for Fiscal Years 1998-2005
(in \$ Millions)

	<u>Sales Tax</u>	<u>Individual Income</u>	<u>Corporate Income</u>	<u>Wagering Tax</u>	<u>Other</u>	<u>Total</u>
FY 1998	3,250.9	3,434.8	1,015.5	N/A	720.2	8,421.4
FY 1999	3,396.0	3,699.3	1,044.4	N/A	743.5	8,883.2
FY 2000	3,651.4	3,753.3	985.3	N/A	752.7	9,142.7
FY 2001	3,686.8	3,779.8	855.3	N/A	730.1	9,052.0
FY 2002	3,791.4	3,540.8	709.4	N/A	697.2	8,708.8
Forecasted FY 2003 ⁽¹⁾	4,303.0	3,697.9	550.2	427.6	946.8	9,925.5
Forecasted FY 2004 ⁽¹⁾	4,888.8	3,838.9	560.5	550.7	900.8	10,739.7
Forecasted FY 2005 ⁽¹⁾	5,127.7	4,033.3	580.6	607.4	895.1	11,244.1
% Change from Prior Year						
FY 1999	4.5%	7.7%	2.8%		3.2%	5.5%
FY 2000	7.5%	1.5%	-5.7%		1.2%	2.9%
FY 2001	1.0%	0.7%	-13.2%		-3.0%	-1.0%
FY 2002	2.8%	-6.3%	-17.1%		-4.5%	-3.8%
Average	4.3%	3.2%	-5.0%		2.0%	2.6%
Forecasted FY 2003 ⁽¹⁾	14.4%	4.4%	-22.4%	N/A	35.8%	14.0%
Forecasted FY 2004 ⁽¹⁾	13.6%	3.8%	1.9%	28.8%	-4.9%	8.2%
Forecasted FY 2005 ⁽¹⁾	4.9%	5.1%	3.6%	10.3%	-0.6%	4.7%

(1) The forecasted operating revenues are adjusted to reflect the tax rate increases enacted in 2002, which include a sales tax increase from 5% to 6% effective December 1, 2002, a cigarette tax increase from \$0.155 to \$0.555 effective July 1, 2002, and wagering tax increases deposited to PTR Fund effective July 1, 2002.

Source: State Budget Agency

Lottery and Gaming Revenues

By statute, certain revenues from the Hoosier Lottery and the riverboat gaming wagering tax, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, “Gaming Revenues”) must be deposited in the Lottery and Gaming Surplus Account (the “Surplus Account”) of the Build Indiana Fund (“BIF”). In 2002, the General Assembly capped the annual distribution of wagering tax revenue to the BIF at \$250 million per year minus the annual amounts distributed to the BIF from the Hoosier Lottery surplus, charitable gaming taxes and license fees, and pari-mutuel wagering taxes. Any revenue in excess of \$250 million is to be distributed to the PTR Fund. For a description of wagering taxes see, “Major General Fund and PTR Fund Revenue Sources—Wagering Tax.”

Before any Hoosier Lottery surplus revenues are transferred to the BIF, \$60 million annually is dedicated to funding state and local pension liabilities—\$30 million to the State Teachers’ Retirement Fund and \$30 million to the Local Police and Fire Pension Relief Fund. All lottery and gaming revenues deposited to BIF are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State’s counties for motor vehicle excise tax replacement, providing for a substantial cut in the excise tax charged on motor vehicles—\$236.2 million for FY 2003.

From FY 1989 through June 30, 2002, \$3.55 billion in Gaming Revenues have been collected by the State.

For FY 2002, Gaming Revenues totaling \$472.4 million were collected by the State from the following sources:

Hoosier Lottery	\$ 166.1 million
Riverboat gaming	\$ 285.1 million
Horse racing	\$ 3.4 million
Charity gaming	\$ 4.0 million
Interest earnings	\$ 13.7 million

Source: State Budget Agency

Operating Expenditures

The legislature appropriated \$20,709.7 million of General Fund and PTR Fund revenues for the FY 2002 and FY 2003 biennium; this represents a 5.5% increase over the previous biennium. Actual expenditures may differ from appropriated levels due to a number of factors, including unforeseen expenses, executive branch action, and legislative action. Please refer to Table IV-8 for the actual difference between appropriations and expenditures in FY 2002 and the estimated difference in FY 2003. The State of Indiana’s five largest expenditure categories include: local school aid, higher education, property tax relief, Medicaid, and corrections. These five categories constitute 83.8% of the appropriations for the FY 2002 and FY 2003 biennium. Please refer to the website referenced in “FISCAL POLICIES—Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the State,” for the Indiana Comprehensive Annual Financial Report prepared by the State Auditor.

Local School Aid. Funding for elementary and secondary education is the State’s largest operating expense payable from both the General Fund and PTR Fund. Local school aid includes distributions for programs such as assessment and performance, in addition to direct tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTR Fund. The General Assembly established the State’s calendar year 1972 funding level as a base for local school aid.

Local school formula funding for direct tuition support on a school by school basis increased by an average of 3.5% for CY 2002 and 2003 with no school corporation receiving an increase of less than 2.0% in regular tuition dollars. Combined local school aid appropriations for FY 2002 from the General Fund-PTR Fund totaled \$4,205.7 million, an increase of 2.2% over FY 2001 appropriations, and constituted 41.2% of the combined General Fund-PTR Fund appropriations.

Prior to January 1, 2003, the State provided 66% of local school corporations' general fund budgets. As a result of the comprehensive tax restructuring legislation passed in 2002, the State will provide approximately 85% of the local school corporations' general fund budgets due to changes made to the Property Tax Relief Credit beginning January 1, 2003 (Please refer to "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Operating Expenditures—Property Tax Relief). Table IV-2 below sets forth local school aid appropriations for FYs 1998 to 2003 and the percentage contribution for the local school aid general fund budget made by the State for such years:

Table IV-2
Local School Aid Appropriations and the State's Percentage
Contribution to the Local School General Fund Budget

	<u>FY Appropriations</u>	<u>Percent of Local School Budgets</u>
1998	\$ 3,464,203,073	66%
1999	3,652,220,387	66%
2000	3,905,249,336	66%
2001	4,115,059,706	66%
2002	4,205,730,913	66%
2003	4,381,199,281	66% ⁽¹⁾

(1) The State will begin contributing approximately 85% of local school general fund budgets on January 1, 2003 as a result of changes to the Property Tax Relief Credit.

Source: Indiana State Budget Agency

Higher Education. The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. The State supports seven higher education institutions: Ball State University, Indiana University, Indiana State University, Indiana Vocational Tech College, Purdue University, University of Southern Indiana, and Vincennes University. General Fund appropriations for higher education for FY 2002 total \$1,441.3 million, an increase of 3.7% over FY 2001, and constitute about 14.1% of the estimated combined General Fund-PTR Fund appropriations. Higher education aid includes appropriations to State-supported higher education institutions for operating expenses (\$1,092.0 million in FY 2002), capital expenditures (\$32.7 million in FY 2002), and fee replacement equal to debt service due on qualified debt (\$118.7 million in FY 2002). Table IV-3 below sets forth higher education appropriations for FYs 1998 to 2003 to State-supported colleges and universities and the enrollment of such institutions for such years:

Table IV-3
Higher Education Appropriations and Enrollment at
State-Supported Universities

	<u>FY Appropriations</u>	<u>Enrollment</u>
1998	\$ 1,189,653,240	227,801
1999	1,241,695,688	231,654
2000	1,331,450,726	234,004
2001	1,389,745,148	243,383
2002	1,441,273,650	253,721
2003	1,470,452,879	262,788

Source: Indiana State Budget Agency

Property Tax Relief. The third largest operating expenditure, payable solely from the PTR Fund, is for local property tax relief. Spending for property tax relief, primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has traditionally reduced local property taxes by 14% to 15%, and the Homestead Credit, which reduces residential property taxes by 10%. Property tax relief appropriations for FY 2002 total

\$1,179.8 million, an increase of 2.3% over FY 2001 appropriations, and constitute about 11.6% of the combined General Fund-PTR Fund appropriations.

Legislation passed in 2002 replaces the PTR Credit with a 60% credit of school corporations' General Fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets covered by the State from 66% to approximately 85% (Please refer to "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Operating Expenditures—Local School Aid"). Additionally, the legislation increased the Homestead Credit from 10% to 20% beginning in 2003. Table IV-4 below sets forth property tax relief appropriations for FYs 1998 to 2003 and such appropriations as a percentage of the overall General Fund-PTR Fund appropriations for such years:

Table IV-4
Property Tax Relief Appropriations

	<u>FY Appropriations</u>	<u>Percent of General Fund/PTR Fund</u> <u>Appropriations</u>
1998	\$ 870,100,000	10.3%
1999	962,800,000	10.9%
2000	1,057,130,000	11.0%
2001	1,153,805,000	11.5%
2002	1,179,830,876	11.6%
2003 ⁽¹⁾	1,157,017,761	11.0%

⁽¹⁾ FY 2003 appropriations do not reflect property tax relief increases enacted under HEA 1001(ss).

Source: Indiana State Budget Agency

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund, is the State's share of Medicaid assistance. The General Assembly set appropriations for the State share of Medicaid at \$1,171.0 million for FY 2002, an increase of 7.9% over FY 2001 appropriations. Medicaid appropriations represent about 11.5% of combined General Fund-PTR Fund appropriations. The budget included funding for increased base spending on Medicaid as a result of an expansion of Medicaid eligibility criteria.

In FY 2002, State General Fund and PTR Fund contributions amounted to 32.7% of Medicaid spending. State dedicated funds and federal funds constitute the remainder of Medicaid spending. Nursing Home Care remains the largest component of Medicaid expense, about \$827.0 million for FY 2002, an increase of 2.6% over FY 2001 spending. Prescription drug costs are the second largest and the fastest growing category of Medicaid expense, with costs of \$627.7 million in FY 2002, an increase of 18.9% over FY 2001 spending. Hospital Services is the third largest component of Medicaid expense, about \$574.4 million for FY 2002, a decrease of 0.2% compared to FY 2001 spending. Table IV-5 below sets forth Medicaid appropriations for FYs 1998 to 2003 and the total Medicaid enrollment for such years:

Table IV-5
Medicaid Appropriations and Enrollment in Medicaid

	<u>FY Appropriations</u>	<u>Medicaid Enrollment</u>
1998	\$ 929,220,649	454,643
1999	987,288,382	549,133
2000	1,025,825,041	611,129
2001	1,085,136,049	680,146
2002	1,170,950,706	737,036
2003	1,248,800,706	N/A

Source: Indiana State Budget Agency

Department of Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation, parole, and victim assistance. The appropriation for FY 2002 is \$547.4 million, an increase of 7.3% over FY 2001 appropriations. Department of Correction appropriations represent about 5.4% of combined General Fund-PTR Fund appropriations. Since 1998, the prison population for the State of Indiana has grown from 19,698 to 22,964, an increase of 16.6%. Table IV-6 below sets forth Department of Correction appropriations for FYs 1998 to 2003 and the prison population for such years:

Table IV-6
Department of Correction Appropriations and Prison Population

	<u>FY Appropriations</u>	<u>Indiana Prison Population</u>
1998	\$ 409,642,284	19,698
1999	409,765,560	20,852
2000	495,401,294	21,269
2001	510,135,335	22,066
2002	547,398,704	22,964
2003	550,523,825	N/A

Source: Indiana Department of Correction, Indiana State Budget Agency

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State's share of public assistance payments, the General Fund's one-half share of State Police costs, State economic development programs and General Fund expenditures for capital budget needs of the State. For FY 2002 other combined General Fund-PTR Fund appropriations total \$1,666.7 million. This constitutes approximately 16.3% of the estimated combined General Fund-PTR Fund appropriations for all purposes. Table IV-7 below sets forth the balance of the other State appropriations for FYs 1998 to 2003 and such appropriations as a percentage of the overall General Fund-PTR Fund appropriations for such years:

Table IV-7
Other Appropriations by Fiscal Year

	<u>FY Appropriations</u>	<u>Percent of General Fund/PTR Fund</u> <u>Appropriations</u>
1998	\$ 1,618,835,130	19.1%
1999	1,612,113,643	18.2%
2000	1,755,304,123	18.3%
2001	1,798,430,019	17.9%
2002	1,666,682,371	16.3%
2003	1,689,818,452	16.1%

Source: Indiana State Budget Agency

Expenditure Limits. In 2002, the General Assembly established that the maximum annual percentage change for state government expenditures be based on the percentage change in Indiana non-farm personal income over the last six calendar years. The legislation excludes expenditures of revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards, or property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and Rainy Day Fund (as hereinafter defined), reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments or settlements, distributions of specified state tax revenues to local units, and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limits. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund, and the Rainy Day Fund. The foregoing expenditures constitute 59.3% of all State spending (\$15,494.1 million of

\$26,118.7 million State dollars) or 43.1% of total spending including federal funds (\$15,494.1 million of \$35,914.1 million including federal funds).

The statute directs the Budget Agency to compute the new state spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income or six percent. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions, or credits adopted after June 30, 2002. The spending cap is first applied in FY 2004. The spending cap limits expenditure increases to 3.5% annually for FY 2004 and FY 2005.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, Tuition Reserve, Combined General and PTR Fund and the Medicaid Reserve Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, and which is commonly called the “Rainy Day Fund.” One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to segregate and maintain a substantial fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income (“API”) for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%. The State has never had any automatic withdrawals from the Rainy Day Fund to the General Fund.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the PTR Fund. See Table IV-8 for Rainy Day Fund balances.

HEA 1001-2001, Section 49, authorizes the State Budget Director, with State Budget Committee review, to transfer funds from the Rainy Day Fund to the General Fund in order to maintain a positive balance in the General Fund. Interest from the Rainy Day Fund is transferred to the General Fund, without administrative action, as provided in HEA 1001-2001, Section 44. The Budget Agency directed the transfer of \$277.1 million in FY 2002 from the Rainy Day Fund to the General Fund. See Table IV-8 for Rainy Day Fund balances.

Tuition Reserve. The Tuition Reserve is essentially a cash flow device that is intended to guarantee that there is sufficient cash to ensure that local school aid payments are timely. Pursuant to State statute, prior to each June 1, the Budget Agency is required to estimate and formally establish the reserve for the ensuing Fiscal Year. See Table IV-8 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account for the purpose of providing funds for the timely payment of Medicaid claims, obligations and liabilities. Prior to the start of FY 2002, the Medicaid Reserve was intended to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of each respective Fiscal Year. Beginning in 2002, the Medicaid Reserve will be used for Medicaid obligations. See Table IV-8 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in FY 1973. It is funded from revenues from the State sales and use tax, a portion of individual income tax receipts, and wagering taxes. The PTR Fund is used for two purposes: first, to replace local property tax levies (PTR Credits), which tax levies were reduced through PTR Credits by the same statute that created the PTR Fund; and, second, for local school aid. To the extent that the PTR Fund does not have sufficient revenues to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. As previously stated, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. Therefore, the General Fund and the PTR Fund are sometimes discussed in this Appendix A as a single, combined fund.

Financial Results of Operations

The State's 2002-2003 biennial budget was adopted without the Governor's signature on July 1, 2001. The budget was based on estimated General Fund and PTR Fund revenue of \$9,545.5 million in FY 2002 and \$9,986.9 million in FY 2003 as set forth in the April 2001 Revenue Forecast. The budget set appropriations from the General Fund and PTR Fund at \$10,211.9 million in FY 2002, an increase of 1.6% over FY 2001 appropriations, and \$10,497.8 million in FY 2003, an increase of 2.8% over FY 2002 appropriations.

In November 2001, the Technical Forecast Committee issued a revised Revenue Forecast for FY 2002 and FY 2003. The forecast adjusted revenue projections down by \$540.0 million to \$9,005.5 for FY 2002 and for FY 2003 projections were reduced by \$737.4 million to \$9,249.5 million.

The State took a number of actions during FY 2002 to address the revenue shortfall. As part of a broader plan to adjust for the shortfall, the Governor utilized measures approved in the biennial budget, including transferring \$200.0 million from the Lottery and Gaming Surplus Account to the General Fund, transferring \$277.1 million from the Rainy Day Fund to the General Fund, and delaying \$373.8 million of payments to local school corporations and higher education institutions. Also, the Budget Agency transferred \$100.0 million from the Medicaid Reserve Fund to the General Fund.

The Governor also ordered all State agencies to permanently cut their base operating budget by 7% and ordered other reductions in spending, including a hiring freeze and a moratorium on salary increases, resulting in a \$145.1 million reduction in spending below appropriated levels in FY 2002. At its April 2002 meeting, the State Board of Finance voted to authorize the transfer of \$441.5 million from dedicated funds to the General Fund and PTR Fund, including \$247.5 million from the Build Indiana Fund, \$37.0 million from the Veterans Memorial School Construction Fund, and \$30.0 million from the Highway Fund. The State transferred \$396.3 million of these funds in FY 2002 and plans to transfer another \$45.2 million in FY 2003.

In order to address the operating deficit, the Governor called a special session of the General Assembly. On June 22, 2002, the General Assembly passed HEA 1001(ss) which offered significant budget relief as well as implemented substantial tax restructuring. The statute raised the sales tax, as well as increased taxes on tobacco products and gaming. Additionally, the General Assembly streamlined the State's corporate tax structure, phased out the Inventory Tax, and provided additional property tax relief to homeowners. HEA 1001(ss) is anticipated to provide \$559.7 million in budget relief in FY 2003.

Actual operating revenues for FY 2002 totaled \$8,708.9 million, \$296.6 million or 3.3% less than projected in November 2001. The State transferred a total of \$973.4 million to the General Fund and PTR Fund from other funds during FY 2002 and delayed \$373.8 million in payments to local school corporations and higher education institutions. At FY End 2002, the State had a Total Combined Balance (being the sum of the Medicaid Reserve, Tuition Reserve, the Rainy Day Fund and the General Fund) of \$534.2 or reserves at 6.1% of Operating Revenue (being the total of taxes, certain fees and DSH Revenue received by or deposited into the General Fund or the PTR Fund).

In December 2002, the Technical Forecast Committee released a revised Revenue Forecast for FY 2003 and new Revenue Forecasts for FY 2004 and FY 2005. The forecast included all the tax increases implemented by the special session of the 2002 General Assembly. The forecast for FY 2003 revenues was revised to \$9,925.5 million, up from the November 2001 forecast by \$676 million or 7.3%, as a result of the sales, cigarette and wagering tax increases. The Committee forecasts total revenue for FY 2004 of \$10,739.7 million, an increase of 8.2% over FY 2003, and total revenue of \$11,244.1 million for FY 2005, an increase of 4.7% over FY 2004. As a result of the updated forecast, the State projects a total combined balance at FY End 2003 of \$493.1 million or reserves at 4.9% of Operating Revenue.

The State anticipates using a number of measures to address the expected structural deficit in the FY 2003 budget. These measures include budget reductions, payment delays, balance transfers, and revenue enhancements. Some of these measures, such as transfers from the Lottery and Gaming Surplus Account and payment delays to local units of government, have been approved by the General Assembly in the 2001 and 2002 sessions.

In January 2003, the Governor released a proposed budget for the FY 2004-2005 biennium. The objective of the proposed budget is to reduce the operating deficit, maintain funding for education and begin rebuilding reserves. The Governor's recommendations include:

- Fully funding the property tax relief increases passed in HEA 1001(ss) as part of a broader tax restructuring program. The expected increases total \$1.1 billion in FY 2004 over FY 2003 appropriations and an additional \$37 million in FY 2005 over FY 2004 appropriations.
- Holding appropriations flat at FY 2003 levels for K-12 and Higher Education for both years of the biennium.
- Funding Medicaid at levels projected in the December 2002 Medicaid Forecast, which includes increases in General Fund appropriations of 6.4% in FY 2004 and 8.8% in FY 2005.
- Increasing appropriations for Department of Corrections to support an expected increase in inmate population.
- Reducing appropriations over the biennium by \$281.2 million or 12%-14% from FY 2003 levels for certain State agencies, including Family and Social Services, General Government, Public Safety, Judiciary and Legislature, while holding other agency appropriations flat at FY 2003 levels.

Total appropriations proposed for FY2004 are \$11,323.3 million, a 7.9% increase over FY 2003, almost entirely attributable to the increased property tax relief. Total appropriations proposed for FY 2005 are \$11,552.1 million, a 2.0% increase over FY 2004, reflecting increases in Medicaid and Corrections. Total proposed appropriations exceed expected revenue (which includes Forecast Revenue plus DSH) by approximately \$517 million in FY 2004 and \$241.7 million in FY 2005. To balance the budget, the Governor recommended an increase in administrative fees and transfers from the Rainy Day Fund and other Dedicated Funds. Total Combined Balances under the proposed budget equal \$286 million in FY 2004 and \$319.3 million, or 2.8% of Operating Revenue, in FY 2005.

In January 2003, the Indiana General Assembly began the legislative session for 2003. The House of Representatives will introduce a budget that may incorporate some or all of the Governor's proposals. It is expected that a budget for the FY 2004-2005 biennium will be adopted and signed into law on or before July 1, 2003, the first day of the new biennium.

Table IV-8 below sets forth the Budget Agency's unaudited end-of-year combined balance statements and projections, listing revenues, expenditures and total combined balances at the end of each Fiscal Year. For prior fiscal years, the balances reflect actual revenue and expenses before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports. There is not a significant difference in the method of accounting between the working balance statements and the annual reports. Forecast revenues, as used in Table IV-8, are developed by the Technical

Forecast Committee and actual revenues may be higher or lower than forecast. Estimated uses and estimated resources (other than “resources” characterized as forecast revenues), as used in Table IV-8, are developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the Governor’s proposed budget for FY 2004-2005. Appropriations for FY 2003 are based on the FY 2002-2003 biennial budget effective July 1, 2001 and amended during the 2002 General Assembly. Actual budgeted appropriations to be passed by the legislative session may differ significantly from the Governor’s recommendations.

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Table IV-8
General Fund and Property Tax Replacement Fund
Combined Statement of New Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

	Actual FY2001	Actual FY2002	(1) Estimated FY2003	(1) Estimated FY2004	(1) Estimated FY2005
Resources					
Working Balance at July 1	832.6	18.6	0.0	0.1	0.1
Current Year Resources					
Forecast Revenue	9,052.0	8,708.9	9,925.5	10,739.8	11,244.1
DSH	70.9	87.0	66.3	66.3	66.3
Other Revenue Sources of Transfers In	-	-	-	-	-
Transfer from Lottery & Gaming Surplus Acct. (BIF)	-	200.0	175.0	113.0	47.0
Transfer from Medicaid Reserve to General Fund	103.4	100.0	-	-	-
Transfer from Dedicated Fund Balances	-	396.3	69.7	150.0	29.9
Transfer from Mental Health Fund ⁽²⁾	-	-	66.3	-	-
Increase in Administrative Fees	-	-	-	8.8	8.8
Transfer From (To) Rainy Day Fund	46.3	277.1	46.5	213.9	(31.6)
Total Current Year Resources	9,272.6	9,769.3	10,349.3	11,291.8	11,364.5
Total Resources	10,106.2	9,787.9	10,349.3	11,291.9	11,364.6
Uses: Appropriations, Expenditures, and Reversions					
Appropriations					
Budgeted Appropriations	10,159.3	10,211.9	10,497.8	11,323.3	11,552.1
Adjustments to Appropriations ⁽²⁾	(15.7)	93.1	135.0	-	-
Deficiency Appropriations	66.8	0.1	-	-	-
Appropriations Transfer (capital appropriations FY2000)	(88.3)	-	-	-	-
Medicaid Shortfall	58.5	-	-	-	-
HEA 1001 (ss) – 2002	-	-	589.4	-	-
Higher Education HEA 1196 – 2002	-	-	(29.0)	-	-
K-12 Education HEA 1196 – 2002	-	-	(119.1)	-	-
Total Appropriations	10,180.6	10,305.1	11,074.1	11,323.3	11,552.1
Other Expenditures and Transfers					
Judgments and Settlements ⁽³⁾	7.0	3.8	55.7	8.0	8.0
Total Appropriations and Expenditures	10,187.6	10,308.9	11,129.8	11,331.3	11,560.1
Payment Delays					
Higher Education Allotment	-	(94.2)	(2.9)	-	-
Tuition Support Distribution	-	(279.5)	(18.2)	-	-
Property Tax Replacement Credit	-	-	(340.6)	(14.5)	(11.1)
Reversions	(102.9)	(145.1)	(418.9)	(25.0)	(185.4)
Total Net Uses	10,084.7	9,790.1	10,349.2	11,291.8	11,363.6
Auditor's Adjustment	1.9	(2.2)	-	-	-
General Fund Reserve Balance at June 30	18.6	0.0	0.1	0.1	1.0
Reserved Balances					
Medicaid Reserve	100.0	-	-	-	-
Tuition Reserve	265.0	265.0	265.0	265.0	265.0
Rainy Day Fund ⁽⁴⁾	526.0	269.2	228.0	20.9	53.3
Total Combined Balances	909.5	534.2	493.1	286.0	319.3
Payment Delay Liability	-	(373.8)	(735.4)	(750.0)	(761.1)
Combined Balance as a Percent of Operating Revenue	9.8%	6.1%	4.9%	2.6%	2.8%

Totals may not add due to rounding.

¹ Forecast revenue is based on information provided by the Technical Forecast Committee, while other resources and uses are estimated by the Budget Agency.

² Adjustments to appropriations by augmentation, transfer, and open-ended appropriations and other reconciling adjustments made as part of the closing process are shown in total. FY 2002 also includes \$66.3 million of unposted transfers to the State General Fund for

state operated facilities which was posted in FY 2003 as a transfer from Mental Health Fund. FY 2003 also includes an additional appropriation of \$135 million for motor vehicle excise tax obligation not met by Lottery and Gaming Surplus Account.

³ Represents Tort Claims and Settlements and the Budget Agency's best current estimate of the cost to the General Fund for Medicaid expenditures that will be incurred by the State in FY 2003 resulting from the Indiana Supreme Court decision in the case *Humphreys v. Day*.

⁴ Includes loans of \$12,241,652 to City of Terre Haute, City of Beech Grove, Beech Grove Schools. City of East Chicago, City of East Chicago Sanitation District, East Chicago Schools and East Chicago Libraries.

Source: State Budget Agency

V. STATE INDEBTEDNESS

Constitutional Limitations on State Debt

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as "contingent obligations." Such indebtedness and obligations are described in the following pages. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues. In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations not already authorized are subject to a number of conditions that cannot be predicted at present. See "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Obligations Payable from Possible State Appropriations

The Indiana General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority, the Recreational Development Commission and the Indiana Bond Bank which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Indiana Department of Administration, the Indiana Department of Transportation, the Indiana Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriation of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission (the "Building Commission") is authorized pursuant to Indiana Code 4-13.5 to issue revenue bonds to finance or refinance the cost of acquiring, constructing and equipping of buildings, structures, improvements or parking areas owned or leased by the Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure

or improvement for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing regional health facilities; or (f) communications system infrastructure.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the Building Commission has issued its revenue bonds to finance or refinance various facility projects. To see a listing of the outstanding indebtedness of the Building Commission, see “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

The Building Commission also provides short-term, or construction, financing for certain facilities through issuance and sale of “Hoosier Notes.” For a more detailed description of the Building Commission’s Hoosier Notes program, see “STATE INDEBTEDNESS—Authorized but Unissued Debt.”

Transportation Finance Authority—Highway Financing. The Indiana Transportation Finance Authority (the “TFA”) was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (a) undertake projects to construct, acquire, reconstruct, improve and extend the State’s highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation, formerly the Indiana Department of Highways; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State’s highways, bridges, streets and roads throughout Indiana. To see a listing of the indebtedness of the TFA for Highway Financing, see “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

Transportation Finance Authority—Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines “aviation related property or facilities” as those properties or facilities that are utilized by a lessee, or a lessee’s assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA has issued its revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the “Airport Facilities”). To see a listing of the indebtedness of the TFA for Airport Facilities, see “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Aviation Technology Center. Also pursuant to the authority granted the TFA for Aviation Financing, the Authority issued its revenue bonds to finance the costs of constructing and equipping an aviation technology center (the “Aviation Technology Center”) at Indianapolis International Airport. To see a listing of the indebtedness of the TFA for the Aviation Technology Center, see “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see “STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing.”

Recreational Development Commission. The Indiana Recreational Development Commission (the “Recreation Commission”) was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the “DNR”) may enter into agreements

setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission has issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the “Park Projects”). To see a listing of the indebtedness of the Recreation Commission for Park Projects, see “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Indiana Bond Bank. The only bonds issued by the Indiana Bond Bank which are payable from possible State appropriations are the Series 1998B Refunding Bonds issued to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 B Bonds to finance construction of the State’s Animal Disease and Diagnostic Laboratory at Purdue University, West Lafayette. To see the listing of the appropriation-backed obligation of the Indiana Bond Bank, see “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see “STATE INDEBTEDNESS—Contingent Obligations—Indiana Bond Bank” and Table V-4.

Debt Statement—Obligations Payable from Possible State Appropriations

Table V-1 lists, by issuing agency, all long-term debt that is subject to possible State appropriations as of June 30, 2002.

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Table V-1
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations
(as of June 30, 2002)

Issuer/Series	Original Par Amount	Ending Balance 6/30/01	(Redeemed)/ Issued	Ending Balance 6/30/02
State Office Building Commission				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 10,475,690	\$ (671,076)	\$ 9,804,613
Series 1993A	42,410,000	33,335,000	(2,050,000)	31,285,000
Subtotal	\$ 69,079,824	\$ 43,810,690	\$ (2,721,076)	\$ 41,089,613
Government Center North				
Series 1990B	\$ 77,123,542	\$ 32,492,747	\$ (2,081,244)	\$ 30,411,503
Series 1993B	107,555,000	89,230,000	(4,145,000)	85,085,000
Subtotal	\$ 184,678,542	\$ 121,722,747	\$ (6,226,244)	\$ 115,496,503
Government Center South				
Series 1990C	\$ 18,063,800	\$ 7,089,520	\$ (453,430)	\$ 6,636,090
Series 1990D	110,675,000	53,710,000	-	53,710,000
Series 1993C	28,440,000	9,095,000	(420,000)	8,675,000
Series 2000B	43,400,000	43,400,000	(700,000)	42,700,000
Subtotal	\$ 200,578,800	\$ 113,294,520	\$ (1,573,430)	\$ 111,721,090
Correctional Facilities				
Series 1995A	\$ 54,025,000	\$ 52,790,000	\$ (455,000)	\$ 52,335,000
Series 1995B	47,975,000	45,475,000	(1,330,000)	44,145,000
Series 1998A	93,020,000	93,020,000	(2,450,000)	90,570,000
Series 1999A	96,785,000	94,020,000	(3,110,000)	90,910,000
Series 2000A	44,800,000	44,800,000	(1,600,000)	43,200,000
Series 2001A	66,600,000	66,600,000	-	66,600,000
Series 2002A	128,110,000	-	128,110,000	128,110,000
Subtotal	\$ 531,315,000	\$ 396,705,000	\$ 119,165,000	\$ 515,870,000
TOTAL SOBC	\$ 985,652,166	\$ 675,532,957	\$ 108,644,250	\$ 784,177,206
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1990A	\$ 72,498,391	\$ 36,107,632	\$ (1,764,015)	\$ 34,343,617
Series 1992A	74,035,000	35,285,000	-	35,285,000
Series 1993A	193,531,298	146,116,298	(6,935,000)	139,181,298
Series 1996B	27,110,000	26,200,000	(250,000)	25,950,000
Series 1998A	175,360,000	175,360,000	(3,110,000)	172,250,000
Series 2000A	269,535,000	269,535,000	-	269,535,000
Subtotal	\$ 812,069,689	\$ 688,603,930	\$ (12,059,015)	\$ 676,544,915
Airport Facilities Bonds				
Series 1992A	\$ 201,320,000	\$ 52,040,000	\$ (5,640,000)	\$ 46,400,000
Series 1995A	29,720,000	27,585,000	(880,000)	26,705,000
Series 1996A	137,790,000	137,790,000	(745,000)	137,045,000
Subtotal	\$ 368,830,000	\$ 217,415,000	\$ (7,265,000)	\$ 210,150,000
Aviation Technology Bonds				
Series 1992A	\$ 11,630,000	\$ 9,700,000	\$ (9,700,000)	\$ -
Series 2002A	10,095,000	-	10,095,000	10,095,000
Subtotal	\$ 21,725,000	\$ 9,700,000	\$ 395,000	\$ 10,095,000
TOTAL ITFA	\$ 1,202,624,689	\$ 915,718,930	\$ (18,929,015)	\$ 896,789,915
Recreational Development Commission				
Series 1994	\$ 19,285,000	\$ 18,575,000	\$ (275,000)	\$ 18,300,000
Series 1997	6,600,000	5,995,000	(215,000)	5,780,000
Subtotal	\$ 25,885,000	\$ 24,570,000	\$ (490,000)	\$ 24,080,000
TOTAL IRDC	\$ 25,885,000	\$ 24,570,000	\$ (490,000)	\$ 24,080,000
Animal Disease & Diagnostic Laboratory				
Series 1998B	\$ 10,830,000	\$ 8,645,000	\$ (665,000)	\$ 7,980,000
TOTAL ADDL	\$ 10,830,000	\$ 8,645,000	\$ (665,000)	\$ 7,980,000
TOTAL ALL BONDS	\$ 2,224,991,855	\$ 1,624,466,887	\$ 88,580,235	\$ 1,713,027,121

Source: State Budget Agency

Debt Service Schedule—Obligations Payable from Possible State Appropriations

Table V-2 lists all principal and interest payments payable from possible State appropriations (not including debt that has been defeased).

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Table V-2
Scheduled Principal and Interest Payments
Payable from Possible State Appropriations

Issuer/Series	FY 03	FY 04	FY 05	FY 06	Thereafter
State Office Building					
Government Center Parking					
Series 1990A	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 14,765,625
Series 1993A	3,689,389	3,689,981	3,683,284	3,678,836	26,823,347
Subtotal	\$ 5,637,439	\$ 5,638,031	\$ 5,631,334	\$ 5,626,886	\$ 41,588,972
Government Center North					
Series 1990B	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 45,799,800
Series 1993B	8,603,809	8,597,976	8,592,396	8,581,026	85,340,884
Subtotal	\$ 14,645,689	\$ 14,639,856	\$ 14,634,276	\$ 14,622,886	\$ 131,140,684
Government Center South					
Series 1990C	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 9,995,065
Series 1990D	3,705,990	3,705,990	3,705,990	3,705,990	65,546,605
Series 1993C	875,280	878,780	875,738	876,105	8,699,688
Series 2000B ⁽¹⁾	8,799,000	8,686,500	8,461,500	8,319,000	19,849,500
Subtotal	\$ 14,697,360	\$ 14,588,360	\$ 14,360,318	\$ 14,218,185	\$ 104,090,858
Correctional Facilities					
Series 1995A	\$ 3,320,028	\$ 3,321,861	\$ 3,322,248	\$ 3,321,149	\$ 83,265,715
Series 1995B	3,858,843	3,853,508	3,853,695	3,849,435	57,231,528
Series 1998A	8,574,151	8,572,990	8,560,298	8,554,491	93,591,571
Series 1999A	7,870,431	7,869,119	7,857,575	7,853,675	109,144,269
Series 2000A ⁽¹⁾	4,104,000	4,102,500	4,000,500	3,993,000	53,292,000
Series 2001A ⁽¹⁾	3,996,000	5,697,000	5,683,500	5,664,000	95,500,500
Series 2002A ⁽¹⁾	6,427,101	8,052,351	8,408,969	8,400,936	184,282,084
Subtotal	\$ 38,150,554	\$ 41,469,329	\$ 41,686,785	\$ 41,636,686	\$ 676,307,667
TOTAL SOBC	\$ 73,131,042	\$ 76,335,576	\$ 76,312,713	\$ 76,104,663	\$ 953,128,181
Transportation Finance					
Highway Revenue Bonds					
Series 1990A	\$ 6,150,288	\$ 6,150,288	\$ 6,150,288	\$ 4,255,288	\$ 45,945,488
Series 1992A	2,399,380	2,399,380	2,399,380	2,399,380	53,910,370
Series 1993A	13,853,698	13,848,263	13,858,773	12,608,425	190,384,262
Series 1996B	3,989,010	3,989,708	3,981,450	3,961,450	15,784,925
Series 1998A	12,098,890	12,108,846	12,088,328	18,669,828	214,203,386
Series 2000A	17,210,301	17,097,176	16,982,801	14,425,301	492,556,782
Subtotal	\$ 55,701,567	\$ 55,593,661	\$ 55,461,020	\$ 56,319,671	\$ 1,012,785,213
Airport Facilities Bonds					
Series 1992A	\$ 9,064,853	\$ 9,385,525	\$ 9,704,613	\$ 10,040,600	\$ 26,185,312
Series 1995A	2,420,893	2,469,868	2,512,723	2,558,595	30,514,282
Series 1996A	8,216,608	8,219,933	8,220,583	8,218,060	173,188,550
Subtotal	\$ 19,702,354	\$ 20,075,326	\$ 20,437,919	\$ 20,817,655	\$ 229,888,145
Aviation Technology Bonds					
Series 2002A	\$ 420,565	\$ 685,565	\$ 955,765	\$ 955,495	\$ 11,444,530
Subtotal	\$ 420,565	\$ 685,565	\$ 955,765	\$ 955,495	\$ 11,444,530
TOTAL ITFA	\$ 75,824,484	\$ 76,354,550	\$ 76,854,701	\$ 78,092,821	\$ 1,254,117,888
Recreational Development Comm.					
Series 1994	\$ 1,419,395	\$ 1,460,203	\$ 1,492,435	\$ 1,531,172	\$ 25,194,154
Series 1997	526,030	525,333	523,869	521,616	6,741,750
Subtotal	\$ 1,945,425	\$ 1,985,536	\$ 2,016,304	\$ 2,052,789	\$ 31,935,904
TOTAL IRDC	\$ 1,945,425	\$ 1,985,536	\$ 2,016,304	\$ 2,052,789	\$ 31,935,904
Animal Disease & Diagnostic Lab					
Series 1998B	\$ 1,042,894	\$ 1,043,475	\$ 1,042,434	\$ 1,044,740	\$ 5,734,930
TOTAL ADDL	\$ 1,042,894	\$ 1,043,475	\$ 1,042,434	\$ 1,044,740	\$ 5,734,930
TOTAL BONDS	\$ 151,943,845	\$ 155,719,137	\$ 156,226,152	\$ 157,295,013	\$ 2,244,925,903

⁽¹⁾ Debt service on variable rate debt is determined using an interest rate cap of 6%.

Source: State Budget Agency

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. The ratios of outstanding debt subject to possible state appropriation to population and personal income for the past nine years are reflected in Table V-3 shown below.

Table V-3
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

<u>Fiscal</u> <u>Year</u>	<u>Population</u>	<u>Personal</u> <u>Income</u> ⁽¹⁾	<u>Outstanding Debt</u> <u>Subject to Appropriation</u>	<u>Debt/Capita</u> ⁽²⁾	<u>Debt/Income</u> ⁽³⁾
1993	5,739,019	\$ 114,675	\$ 1,001,051,854	\$ 174	0.9%
1994	5,793,526	121,537	1,030,787,646	178	0.8
1995	5,851,459	126,525	1,036,962,646	177	0.8
1996	5,906,013	132,890	1,119,537,646	190	0.8
1997	5,955,267	139,459	1,116,717,640	188	0.8
1998	5,998,880	149,318	1,240,092,643	207	0.8
1999	6,044,969	154,919	1,228,372,647	203	0.8
2000	6,080,485	165,815	1,569,341,152	258	0.9
2001	6,114,745	169,885	1,624,466,887	266	1.0

(1) Personal Income is expressed in millions of dollars.

(2) According to Moody's 2002 State Debt Medians, the median debt per capita for all states was about \$573

(3) According to Moody's 2002 State Debt Medians, the median percentage for all states was about 2.3%

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income, and State Budget Agency for outstanding debt.

Authorized but Unissued Debt

The 1997 General Assembly authorized the Building Commission to issue bonds to finance the construction of the Indiana State Museum. The Museum was opened to the public in May of 2002 and the Completion Certificate was signed on January 1, 2003. The Building Commission will be issuing long-term debt to finance the Museum in January 2003.

The 1999 General Assembly authorized the Building Commission to issue additional bonds to finance construction of a replacement mental health facility in Evansville, Indiana. The Building Commission is in the process of constructing the Evansville facility and anticipates completion in the second quarter of 2003.

The 2001 General Assembly authorized the Building Commission to issue bonds to finance three (3) regional health centers. The Building Commission is in the initial stages of planning for such facilities and has not yet established a construction time line. An appropriation was made in the approximate amount of \$26,000,000 which is available to either make lease rental payments on such facilities when complete or to fund construction of such facilities.

The Building Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes"-a tax-exempt commercial paper program. Currently, the Building Commission is authorized to issue up to \$150 million in Hoosier Notes. As of June 30, 2002, \$100.4 million of Hoosier Notes were outstanding. The type, amount and timing of any additional bonds to refinance additional amounts of Hoosier Notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, the level of investment rates, conditions in the credit markets, costs and progress of construction and the financial condition of the State.

In 1997, the General Assembly authorized the TFA to issue bonds to finance additional State highway construction projects through the Crossroads 2000 Program. The TFA has approximately \$300,000,000 in additional bonding capacity and expects to issue additional bonds in early 2003. In 2002 the General Assembly

authorized the deposit of an additional penny to the State Highway Road Construction and Improvement Fund, which is used to fund lease rental payments to the TFA from the Indiana Department of Transportation for highway revenue bonds. This increases this bonding capacity by approximately \$350,000,000.

Contingent Obligations

Certain State entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank, and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State general funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority—Toll Road Financing. The TFA and its predecessors have issued revenue bonds (“Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile East-West toll road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. To see a listing of the indebtedness of the TFA for Toll Road Financing, see “STATE INDEBTEDNESS—Schedule of Long-Term Debt—Contingent Obligations.”

The Indiana Department of Transportation (“DOT”) has entered into a lease agreement for the Toll Road (the “Toll Road Lease”) with the TFA. The DOT is obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the DOT are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the DOT is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the DOT is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the DOT.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see “STATE INDEBTEDNESS—Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing” and “Transportation Finance Authority-Aviation Financing.”

Indiana Bond Bank. The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank, and an appropriation would only be requested in the event that the particular designated sources were insufficient.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1.0 billion plus (a) up to \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, the foregoing limitations do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

To see a listing of the outstanding Bond Bank bonds that are eligible for reserve fund replacement see “STATE INDEBTEDNESS—Schedule of Long Term Debt—Contingent Obligations.”

Development Finance Authority. The Indiana Development Finance Authority (the “Development Finance Authority”), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as listed in Table V-4, the Development Finance Authority’s revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority issued its taxable economic development revenue bonds for Steel Dynamics, Inc. (the “Steel Dynamics Bonds”), Qualitech Steel Corporation (the “Qualitech Bonds”), and Heartland Steel, Inc. (the “Heartland Bonds”). Each of these bond issues is secured in part by a debt service reserve fund established exclusively for the related bond issues. The Qualitech Bonds and the Heartland Bonds bear interest at a variable rate and are also secured by direct-pay letters of credit issued by a commercial bank. The Development Finance Authority agrees that if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Bonds, the related debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund.

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, are bankrupt, and a bankruptcy court has relieved them of their obligations to make debt service payments on their bonds. As a result, the Development Finance Authority is reimbursing draws on the letters of credit which secure the bonds from moneys lawfully available to the Development Finance Authority, including moneys appropriated by the General Assembly.

The Steel Dynamics Bonds were redeemed and replaced with a loan from one or more commercial banks (the “Steel Dynamics Obligations”). The debt service reserve fund established originally for the Steel Dynamics Bonds remains in place, together with the Development Finance Authority’s agreement to seek an appropriation to replenish such debt service reserve fund, if an unreimbursed transfer were made from such fund. Steel Dynamics never failed to make a payment on the Steel Dynamics Bonds, and Steel Dynamics is current in its payments on the Steel Dynamics Obligations.

The Steel Dynamics Bonds financed a portion of the State’s incentives for a substantial economic development project in DeKalb County, Indiana. Steel Dynamics continues to operate that project. The Qualitech Bonds financed a portion of the State’s incentives for a substantial economic development project in Hendricks

County, Indiana. Steel Dynamics purchased that project, and the Development Finance Authority anticipates that Steel Dynamics will begin additional production there upon completion of capital improvements and required permitting. (Steel Dynamics is in no way obligated to pay the Qualitech Bonds.) The Heartland Bonds financed a portion of the State's incentives for a substantial economic development project in Vigo County (Terre Haute), Indiana. A multi-national steel company is now operating that project. (The multi-national steel company is in no way obligated to pay the Heartland Bonds.)

See Table V-4.

Debt Statement—Contingent Obligations

Table V-4 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2002. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund. See "STATE INDEBTEDNESS—Schedule of Long Term Debt—Contingent Obligations."

Table V-4
Schedule of Long Term Debt
Contingent Obligations
(as of June 30, 2002)

Issuer/Series	Original Par Amount	Ending Balance 6/30/01	(Redeemed)/ Issued	Ending Balance 6/30/02
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ -	\$ 26,200,000
Series 1987	184,745,000	46,295,000	(1,995,000)	44,340,000
Series 1993	76,075,000	47,770,000	(8,595,000)	39,175,000
Series 1996	134,795,000	132,710,000	(620,000)	132,090,000
ITFA TOTAL	<u>\$ 652,585,000</u>	<u>\$ 252,975,000</u>	<u>\$ (11,170,000)</u>	<u>\$ 241,805,000</u>
Indiana Bond Bank				
Special Program Pool				
Series 1993A	\$ 7,975,000	\$ 6,440,000	\$ (275,000)	\$ 6,165,000
Series 1993B	14,915,000	13,055,000	(790,000)	12,265,000
Series 1994B	7,835,000	6,205,000	(425,000)	5,780,000
Series 1995A	4,540,000	3,855,000	(165,000)	3,690,000
Series 1995A	13,280,000	11,740,000	(355,000)	11,385,000
Series 1997A	6,295,000	5,910,000	(165,000)	5,745,000
Series 1997B	22,855,000	22,115,000	(1,730,000)	20,385,000
Series 1997C	5,010,000	5,010,000	-	5,010,000
Series 1998A	6,485,000	6,270,000	(185,000)	6,085,000
Series 2000A	31,495,000	31,495,000	-	31,495,000
Series 2000A (Refunding)	32,860,000	24,210,000	(9,025,000)	15,185,000
Series 2001A (Refunding)	20,840,000	20,840,000	(1,315,000)	19,525,000
Series 2001A	7,055,000	7,055,000	(110,000)	6,945,000
Series 2001B	9,500,000	9,500,000	-	9,500,000
Series 2002A	42,910,000	0	42,910,000	42,910,000
Series 2002C	3,940,000	0	3,940,000	3,940,000
IBB TOTAL	<u>\$ 237,790,000</u>	<u>\$ 173,700,000</u>	<u>\$ 32,310,000</u>	<u>\$ 206,010,000</u>
Indiana Development Finance Authority				
Qualitech Steel	\$ 33,100,000	\$ 28,700,000	\$ (1,200,000)	\$ 27,500,000
Steel Dynamics	21,400,000	17,600,000	(1,100,000)	16,500,000
Heartland Steel	13,800,000	12,300,000	(400,000)	11,900,000
IDFA TOTAL	<u>\$ 68,300,000</u>	<u>\$ 58,600,000</u>	<u>\$ (2,700,000)</u>	<u>\$ 55,900,000</u>
TOTAL ALL BONDS	<u>\$ 958,675,000</u>	<u>\$ 485,275,000</u>	<u>\$ 18,440,000</u>	<u>\$ 503,715,000</u>

Source: State Budget Agency

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 29-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority ⁽¹⁾	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority ⁽²⁾	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Secondary Loans, Inc. ⁽³⁾	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in Marion County

⁽¹⁾ Originally the Indiana Hospital Equipment Financing Authority

⁽²⁾ Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

⁽³⁾ A not-for-profit corporation authorized by the General Assembly.

VI. STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the

assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable.

In 2000, the Indiana General Assembly restructured certain governance provisions for the Public Employees' Retirement Fund and the Teachers' Retirement Fund. Each Fund is now a separate body corporate politic. The legislation was designed to give the Funds the resources necessary to most efficiently and effectively implement investment strategies and administer benefits.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. The Fund is governed by Indiana Code 5-10.2 and 5-10.3 and is administered by a five member Board of Trustees appointed by the Governor. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On July 1, 2001, there were 206,111 active and retired members participating in PERF from State and local government with assets totaling \$8,355,549,799. The Fund's assets were allocated 57% to equities and 43% to fixed income.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and pays the employee contributions for State employees to PERF as part of a wage adjustment.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is financially responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last four valuation dates.

**Table VI-1
Indiana's Public Employee's Retirement Fund
(State-Related Portion)**

As of July 1,	1998	1999	2000	2001*
Funded Status				
Actuarial Value of Assets	\$1,626,450,185	\$ 1,828,584,443	\$ 1,960,018,018	\$ 2,063,626,964
Actuarial Accrued Liability	1,491,985,623	1,583,485,563	1,701,091,436	1,896,505,744
Unfunded/(Overfunded) AAS	(134,464,562)	(245,098,880)	(258,926,582)	(167,121,220)
Funded Ratio	109.0%	115.5%	115.2%	108.8%
Contribution History				
Annual Required Contribution	\$ 81,545,985	\$ 67,481,016	\$ 61,761,627	\$ 66,559,482
Actual Employer Contribution	80,145,933	77,821,378	84,353,750	76,218,663
Contribution Rate**	5.7%	5.0%	5.0%	5.2%

* Revised actuarial assumptions due to experience review completed in December 2001 for Plan years 1995-2000.

** Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2001

Other State Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the Judges' Retirement System, the Excise Police and Conservation Enforcement Officers' Retirement Plan and the Legislators' Defined Benefit Plan. The following table highlights the actuarial valuation findings for these plans as of July 1, 2001.

Table VI-2
Summary of Results of Actuarial Valuation
July 1, 2001

	Judge's Retirement System	Legislators' Defined Benefit Plan	Excise Police & Conservation Officers' Retirement Plan	Prosecuting Attorney's Retirement Fund
<u>Funded Status</u>				
Actuarial Value of Assets	\$ 109,729,884	\$ 4,665,517	\$ 36,921,405	\$ 10,564,489
Actuarial Accrued Liability	188,610,419	5,508,146	52,024,033	20,417,483
Unfunded/(Overfunded) AAL	78,880,535	842,629	15,102,628	9,852,994
Funded Ratio	58.2%	84.7%	71.0%	51.7%
<u>Contribution History*</u>				
Annual Required Contribution	\$ 10,756,808	\$ 177,559	\$ 1,717,593	\$ 375,145
Actual Employer Contribution	12,278,630	170,144	2,205,711	275,266

* Contribution History is for Plan Year 7/1/00 – 6/30/01

Source: Actuarial Valuation Reports, July 1, 2001 for Judges' Retirement System, Legislators' Defined Benefit Plan and Excise Police and Conservation Officers' Retirement Plan.

The PERF Board of Trustees also administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus gaming revenues. In addition to those funding sources, the State authorized additional appropriations of \$50.0 million during 1996 and \$25.0 million each year of the 1997-1999 biennial budget. In 1999, the State dedicated another \$20 million per year from the Hoosier Lottery (beyond the existing \$10 million per year) to the pension relief fund. In 2001, the State authorized that all interest earnings from the Public Deposit Insurance Fund be deposited to the pension relief fund for the next 10 years. For FY 2002, almost \$22.5 million was transferred from the Public Deposit Insurance Fund to the pension relief fund. During FY 2002, \$168.8 million was expended from the State's pension relief fund, and on June 30, 2002, the State's pension relief fund had a balance of \$426.9 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") is the administrator of a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the state. Membership in the TRF is required for all legally qualified and regularly employed teachers who serve in the public schools. The TRF provides retirement benefits, as well as death and disability benefits. Indiana Code 21-6.1 governs the requirements of the TRF and the TRF is administered by a five member Board of Trustees appointed by the Governor ("TRF Board"). On June 30, 2001, TRF had 114,026 total members with assets totaling \$5,810,759,564. The TRF's assets were allocated 43% to equities and 57% to fixed income.

The TRF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, each employing unit may elect to "pick up" the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a "pay as you go" basis. As a result, there accumulated a substantial unfunded accrued liability in the TRF (Closed Plan).

To aggressively address TRF's unfunded liability, the State and TRF Board have taken the following actions:

1. The State capped its pension benefit obligation by shifting the obligation for all teachers hired after July 1, 1995 to local school districts and implementing a level percent of payroll current funding approach ("New Plan"). The TRF Board sets the contribution rate based on an actuarial valuation of the Plan.
2. The New Plan is also responsible for the total cost of teachers transferring to another school district after 1995.
3. The TRF Board addressed the unfunded liability developing in the New Plan as a result of the impact of teacher transfers, by increasing the required payroll contribution rate to the 9.0% rate recommended by TRF's actuary.
4. The State created the Pension Stabilization Fund ("PSF") which will be used to supplement future General Fund appropriations for TRF liability beginning in FY 2006. The payments from the PSF will equal 106% of the difference between the then current year liability minus the prior year's payment from the General Fund for the liability. The Budget Agency, after review by the State Budget Committee and with approval of the Governor, may change the pension stabilization percentage (106%), but the payments may not allow the PSF balance to be negative. As of June 30, 2002, the PSF totaled \$1.787 billion. The PSF has been funded by:
 - An initial transfer of \$439.7 million in FY 1996;
 - Permanent annual appropriations of \$30 million from Lottery revenues since Fiscal 1996;
 - Annual appropriations of \$25 million from the State General Fund for FYs 1996-2001;
 - Additional appropriations of \$500 million during FYs 1997-2001;
 - Statutory transfer of \$148.5 million in interest income in FY 1999 and \$35.9 million in FY 2000.
5. In 1996, the State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets.

The substantial changes to TRF were designed to limit the growth in the annual State General Fund appropriation necessary to meet current obligations of the TRF. An independent analysis of TRF done in December 1999 by The Indiana Fiscal Policy Institute, reports that the growth rate for future General Fund appropriations has been reduced from a projected growth rate of 9% per year to 3.1% per year following the restructuring. In addition, the funded status of TRF has continued to improve since the implementation of the changes as detailed in the table below.

Table VI-3
Indiana State Teachers' Retirement Fund
Schedule of Funding Progress

As of June 30,	1998	1999	2000	2001
Funded Status of Closed Plan				
Actuarial Value of Assets	\$ 4,130,388,693	\$ 4,730,666,420	\$ 5,209,889,286	\$ 5,363,497,813
Actuarial Accrued Liability	11,481,766,668	12,172,501,450	12,409,275,218	12,695,787,691
Unfunded/(Overfunded) AAL	7,351,377,975	7,441,835,030	7,199,382,932	7,332,289,878
Funded Ratio	36.0%	38.9%	42.0%	42.2%
Funded Status of New Plan*				
Actuarial Value of Assets	\$ 135,923,370	\$ 240,053,914	\$ 368,157,499	\$ 447,261,751
Actuarial Accrued Liability	298,407,427	498,422,993	705,790,225	828,038,282
Unfunded AAL	162,484,057	258,369,079	337,632,726	380,776,531
Funded Ratio	45.5%	48.2%	52.2%	54.0%
•	Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan.			

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2001

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in the Indiana Comprehensive Annual Financial Report. See "FISCAL POLICIES—Certain Financial Information Incorporated Herein by Reference; Availability from NRMSIRs and the State."

VII. ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and is within a day's drive of nearly two-thirds of the United States' population. Indiana benefits from proximity to major markets and population centers—both national and international. With 11,300 miles of State highways and 1,171 miles of interstate highways, Indiana has more interstate highways passing through it than any other state.

Indiana also benefits from a relatively low cost of living. The cost of living index for all of Indiana's major cities has consistently been below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial consumers while residential energy bills were 17.2% lower than the national average.

Over the last decade, Indiana's economy has grown in size and diversity. With an estimated 2000 Gross State Product of more than \$192.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel. From 1991 to 2001, Indiana has witnessed a significant shift in the distribution of employment between sectors. Employment in the service sector increased by 38%, followed by a 32% gain in construction and a 16% increase in wholesale and retail trade. The service sector composes 25.7% of total

employment in Indiana, an increase from 21.5% in 1991, and is now the largest single sector of employment in Indiana.

Population

Indiana is the 14th most populous state in the United States. Indiana's population grew by 1.0% from 1980 to 1990 and 9.7% from 1990 to 2000. The capital and largest city in the state is Indianapolis. From 1990 to 2000, population growth within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest.

Table VII-1
Population of Indiana and Selected Indiana MSAs
(thousands of people)

	1980	1990	2000	% Change 1980-2000
Indiana	5,490,210	5,544,159	6,080,485	10.8%
Indianapolis MSA	1,166,575	1,249,822	1,607,486	37.8%
Fort Wayne MSA	354,156	363,811	502,141	41.8%
Evansville- Henderson MSA	235,403	235,946	251,366	6.8%
Gary Primary MSA	642,733	604,526	631,362	-1.8%
South Bend MSA	241,617	247,052	265,559	9.9%
United States	226,542,199	248,709,873	281,421,906	24.2%

Source: U.S. Census Bureau

Table VII-2
Demographic Profile

Age (Years)	Indiana		United States	
	1990	2000	1990	2000
Under 5	7.2%	7.0%	7.6%	6.8%
5-17	18.7%	18.9%	18.2%	18.9%
18-24	11.0%	10.2%	10.8%	9.7%
25-44	31.5%	29.4%	32.4%	30.2%
45-64	19.1%	22.0%	18.6%	22.0%
65 and older	12.6%	12.4%	12.5%	12.4%
Median Age	35.4 years	35.2 years	32.8 years	35.3 years

Source: U.S. Census Bureau

Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. The service sector is now the largest sector of employment at 25.7% of total employment, followed by trade at 23.6% and manufacturing at 21.4%. Indiana lost 56,800 jobs between December 2000 and December 2001, representing a 1.9% decline. Since 1988, Indiana's annual unemployment rate has remained below that of the United States.

Table VII-3
Year-Ending Non-Farm Employment
(seasonally adjusted)

Year	<u>Total Employment</u>		<u>% Change</u>		<u>Net New Jobs</u>
	Indiana	U.S.	Indiana	U.S.	Indiana
1991	2,519,600	108,121,000			
1992	2,580,900	109,266,000	2.4%	1.1%	61,300
1993	2,670,000	112,034,000	3.5%	2.5%	89,100
1994	2,758,500	115,918,000	3.3%	3.5%	88,500
1995	2,802,000	118,118,000	1.6%	1.9%	43,500
1996	2,834,300	120,916,000	1.2%	2.4%	32,300
1997	2,878,100	124,270,000	1.5%	2.8%	43,800
1998	2,948,700	127,297,000	2.5%	2.4%	70,600
1999	3,003,600	130,406,000	1.9%	1.5%	54,900
2000	2,967,800	132,319,000	-1.2%	1.5%	-35,800
2001	2,911,000	130,890,000	-1.9%	-1.1%	-56,800
Average Annual Growth Rate			1.5%	1.8%	
Total Growth			15.5%	21.1%	391,400

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-4
Year-ending Non-Farm Employment by Sector
(seasonally adjusted in thousands)

Sector	1991	% of Total	2001	% of Total	Growth 1991-2001
Mining	7,300	0.3%	6,700	0.2%	-8.2%
Construction	111,700	4.4%	147,000	5.0%	31.6%
Manufacturing	622,400	24.7%	623,400	21.4%	0.2%
Trade	594,400	23.6%	687,800	23.6%	15.7%
Finance, Insurance, Real Estate	126,200	5.0%	140,500	4.8%	11.3%
Transportation & Public Utilities	130,200	5.2%	145,100	5.0%	11.4%
Services	542,000	21.5%	747,900	25.7%	38.0%
Government	385,400	15.3%	412,600	14.2%	7.1%
Total Non Farm Employment	2,519,600	100.0%	2,911,000	100.0%	15.5%

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-5
Unemployment Rate
(annual averages of monthly data)

Year	Indiana	U.S.	Indiana as % of U.S.
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.7	5.6	83.9
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0
2001	4.4	4.8	91.7

Source: U. S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Income

In 2000, Indiana's per capita personal income reached \$27,011, increasing 3.3% over 1999. Over the past ten years, Indiana's personal income has grown at an average annual rate of 3.96%. From 1991 to 2001 Indiana's median household income has grown faster than the U.S., averaging an annual growth rate of 1.69% versus 0.97% for the U.S. In 2001, median income was \$41,192 or 96% of the U.S. average, up from 90% in 1991. Indiana has the twelfth lowest poverty rate in the nation, with 8.5% of the state living below the poverty level in 2001, down from 15.7% in 1991. In addition, 53% of Indiana households are in the middle income category of \$25,000 to \$74,999, compared to 48% of U.S. households.

Table VII-6
Growth in Per Capita Personal Income

Year	Indiana	U.S.	Indiana	U.S.
1990	\$ 17,625	\$ 19,584		
1991	18,055	20,089	2.4%	2.6%
1992	19,629	21,082	8.7%	4.9%
1993	20,112	21,718	2.5%	3.0%
1994	21,153	22,581	5.2%	4.0%
1995	21,845	23,562	3.3%	4.3%
1996	22,775	24,651	4.3%	4.6%
1997	23,748	25,874	4.3%	5.0%
1998	25,182	27,322	6.0%	5.6%
1999	26,143	28,542	3.8%	4.5%
2000	27,011	29,676	3.3%	4.0%
Average Annual Growth			3.96%	3.85%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table VII-7
Growth in Median Household Income
(2-year average)

Year	Indiana	U.S.	Indiana	U.S.
1991	\$ 34,849	\$ 38,754		
1992	34,805	38,032	-0.1%	-1.9%
1993	35,417	37,784	1.8%	-0.7%
1994	34,236	37,904	-3.3%	0.3%
1995	35,711	38,712	4.3%	2.1%
1995	38,995	37,857	9.2%	2.3%
1997	41,126	40,284	5.5%	1.8%
1998	42,931	41,436	4.4%	2.9%
1999	43,283	42,764	0.8%	3.2%
2000	41,937	43,211	-3.1%	1.0%
2001	41,192	42,695	-1.8%	-1.2%
Average Annual Growth			1.69%	0.97%

Source: U.S. Census Bureau: *Current Population Survey*

Table VII-8
Poverty Rates for IN and the US

Year	Indiana	U.S.
1991	15.7%	14.2%
1992	11.8%	14.8%
1993	12.2%	15.1%
1994	13.7%	14.5%
1995	9.6%	13.8%
1996	7.5%	13.7%
1997	8.8%	13.3%
1998	9.4%	12.7%
1999	6.7%	11.8%
2000	8.7%	11.3%
2001	8.5%	11.7%
Rank	12 lowest of all States	

Source: U.S. Census Bureau: *Current Population Survey*

Gross State Product

With an estimated 2000 Gross State Product of more than \$192.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. Since 1990, Indiana's Gross State Product has grown at average rate of 5.6% annually.

Table VII-9
Gross State Product (GSP) and Gross Domestic Produce (GDP) in Current Dollars

	1980	1990	2000	Average Annual Growth Rate 1990-2000	% of Total
Indiana	58,379	110,788	191,195	5.6%	100.0%
Agriculture	1,907	2,273	2,225	-0.2%	1.2%
Mining	493	640	674	0.5%	0.4%
Construction	2,685	5,074	9,836	6.8%	5.1%
Manufacturing	19,510	33,665	58,906	5.8%	30.6%
Transportation & Utilities	5,184	10,111	14,436	3.6%	7.5%
Wholesale Trade	3,586	6,452	11,448	5.9%	6.0%
Retail Trade	5,610	10,238	17,365	5.4%	9.0%
F.I.R.E.	7,219	13,691	25,422	6.4%	13.2%
Services	6,318	16,416	32,755	7.2%	17.0%
Government	5,868	12,228	19,128	4.6%	10.0%
United States	2,731,618	5,706,658	9,941,522	5.7%	100.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

In 2001, Indiana businesses exported \$14,365.4 million worth of goods to other countries, a decrease of 6.6% from 2000. However, 2001 exports remained well above 1999 levels, even with the border closings and delays caused by the September 11th attack. Since 1996, Indiana's exports have grown at an average annual rate of 10.3% versus 7.2% for the U.S.

Table VII-10
Indiana Exports
(in \$Millions)

Year	<u>Exports in Millions of Dollars</u>		<u>Annual Percentage Change</u>		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % of U.S. Exports
1996	10,983.6	622,827.1			1.8%
1997	12,028.5	687,598.0	9.5%	10.4%	1.7%
1998	12,318.1	680,474.2	2.4%	(1.0)%	1.8%
1999	12,910.3	692,820.6	4.8%	1.8%	1.9%
2000	15,385.8	780,418.6	19.2%	12.6%	2.0%
2001	14,365.4	731,025.1	(6.6%)	(6.3%)	2.0%
Total Growth = 160%		Total Growth = 99%	Average = 10.3%	Average = 7.2%	

Source: U.S. Census Bureau, Foreign Trade Division

Table VII-11
Indiana's Leading Export Industries and Destinations
(in \$Millions)

<u>Top Export Industries</u>		<u>Top Export Destinations</u>	
Industry	2001 Exports	Industry	2001 Exports
Vehicles, excluding Railway	\$3,904.9	Canada	\$6,201.0
Machinery	3,055.8	Mexico	1,770.1
Electrical Machinery	1,296.0	United Kingdom	941.0
Organic Chemical	909.4	Japan	700.8
Optic/Medical Instruments	877.4	France	669.0
Plastic	615.1	Germany	553.8
Pharmaceutical	484.7	Netherlands	307.1
Miscellaneous Chemical	419.9	Brazil	290.5
Aluminum	270.3	Australia	235.4
Rubber	220.1	South Korea	220.9
Other	2,311.8	Other	2,475.8

Source: U.S. Census Bureau, Foreign Trade Division

VIII. LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State, which involve amounts exceeding \$5 million individually or in the aggregate as of October 16, 2002. With respect to tort claims only, the State's liability is limited to \$300,000 for injury to or death of one person in any one occurrence, and \$5,000,000 for injury to or death of all persons in that occurrence.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court and will gradually reduce the State's expenditures over that time frame.

In July 1993, a lawsuit was filed in Marion Superior Court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of \$5 million.

In a lawsuit filed against the State in January 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that permits the State to ignore applicants who are unable to pay but have a medical condition that will improve with treatment. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals recently affirmed the trial court's decision. The State sought transfer to the Supreme Court. In July 2001, the Supreme Court denied transfer, thus affirming the adverse trial court decision. The State and the plaintiffs have agreed on Medicaid's manner of compliance with the judgment, and the agreement received court approval. The fiscal impact is estimated to be \$40 to \$50 million.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The State prevailed in both the state and federal trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of \$5 million.

In February 2000, a class action by a group of truckers and trucking companies seeks what may be in excess of \$5 million in fuel tax refunds attributable to five quarters (15 months) between the date the previous proportional use exemption was declared unconstitutional and the date the present proportional use exemption was enacted. The Tax Court denied class certification, which substantially reduces the potential liability. The Tax Court has ruled that the claimants are entitled to refunds of the tax paid during the five quarters at issue in the case. The Tax Court ruled in favor of petitioners. The Supreme Court denied review, ending the case. There are no federal issues to present to the U.S. Supreme Court. The Department of Revenue is paying all timely filed claims. A few of the claims do not appear to have been timely filed in the Tax Court, and a motion to dismiss those claims will be filed in the next 30 days. Approximately 23 separate cases, several involving multiple petitioners, are involved.

In September 2000, various Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the Indigent property tax and that the tax therefore violates various constitutional provisions. It is similar to five previous suits that were dismissed on procedural grounds but this one is likely to be addressed on the merits. Judge Fisher heard oral argument on December 4, 2001 and ruled against retroactive refunds. The case is currently under appeal.

In February 2000, several trucking companies filed a suit in Tax Court challenging the collection of motor fuel tax attributable to miles driven on the Indiana Toll Road and seeking refunds of approximately \$18 million. They claim that motor fuel tax tied to Toll Road use violates the Commerce Clause of the U.S. Constitution and constitutes double taxation as the truckers also pay to use the Toll Road. On October 30, 2001, the Tax Court denied class certification and also granted summary judgment to the Department of Revenue, concluding that no refund is due. The Indiana Supreme Court denied review and the U.S. Supreme Court has recently denied the truckers' petition for writ of certiorari.

In July 2000, a gaming corporation operating one of the riverboats challenged the Department of Revenue's interpretation of certain aspects of the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgment. The potential impact of this case is between \$5 and \$10 million, with additional impact because of the precedent it would have on other gaming operations.

In 1995, property owners filed an action against the Department of Environmental Management, the Office of Environmental Adjudication and current and former officials of those agencies claiming that denial of a permit for certain land use was an unconstitutional taking and denial of due process, as well as violation of the Indiana Constitution. The plaintiffs are seeking in excess of \$30 million in damages plus costs and attorney fees. The case is pending in federal court.

In May 2000, property owners along the Fawn River filed an action against the Governor, Indiana Department of Natural Resources and officials and employees of IDNR for violations of the Clean Water Act, unconstitutional takings and section 1983 violations. The Plaintiffs are seeking in excess of \$30 million in damages, costs and attorneys fees. The federal court granted summary judgment in favor of the State; the matter is currently on appeal before the Seventh Circuit.

In February 2001, a class action was brought on behalf of plaintiffs seeking injunctive relief to force FSSA to provide Medicaid-eligible children under the age of 21 who are eligible for the Early and Periodic Screening, Diagnostic and Treatment (“EPSDT”) program with residential mental health placement. Currently, Medicaid will pay for mental health treatment but will not pay for room and board. While plaintiffs are not seeking monetary damages, if they are successful, they would force the State to pay for residential placement for the class. The size of the class is unknown, but could include thousands of children. If it is that large, the ultimate cost to the State could exceed \$5 million. On October 1, 2002, the Court granted summary judgment to plaintiffs on the Medicaid issue. Appellate period is pending.

In 2001 and 2002, four riverboat casinos have filed cases claiming that the purchase of the riverboats are not properly subject to sales/use tax in Indiana. Each of the casinos claim the riverboats should not be taxable because they are entitled to the public transportation exemption and because for property tax purposes they are considered to be real estate, not personal property. Collectively, the exposure for these cases is between \$7-\$8 million. Briefs are due beginning November 16, 2002.

In April 2002, a class action complaint was filed by six federal retirees, who claim that the Indiana method of taxing federal employees retirement benefits results in greater taxation than is collected from other retirees who collect social security violating federal statutes and the U.S. Constitution. The total exposure exceeds \$5 million.

In July 2002, a corporation filed a breach of contract action against the Indiana Department of Environmental Management (“IDEM”), alleging that the Department failed to abide by the terms of an agreed order relating to clean-up costs directed by the federal government. The plaintiff is seeking \$5 million in damages.

In August 2002, a breach of contract suit was filed by a large accounting firm hired to conduct the reassessment of real property in Lake County. Firm seeks \$12 million. Plaintiff asserts that State approved invoices then failed to abide by contractual provision requiring it to take steps to force Lake County to pay invoices.

The Marion County Treasurer has filed a lawsuit against Governor O’Bannon and the Indiana Department of Correction alleging the State’s fees to incarcerate juvenile offenders are excessive and unconstitutional. The Marion County Treasurer is seeking to avoid payment of \$28 million in current charges and to collect approximately \$80 million in past payments.

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APPENDIX B

2003 B QUALIFIED OBLIGATIONS

JEFFERSONVILLE TOWNSHIP PUBLIC LIBRARY DISTRICT

A. Certain General Economic and Demographic Information

The Jeffersonville Township Public Library District (the "Library") is located in Jeffersonville Township, which is the southernmost township in Clark County and comprises 26.8 square miles. The 2000 population of Jeffersonville Township was 56,695, which is 59% of the total county population. It is located on the Ohio River directly across from Louisville, Kentucky and is part of the Louisville SMSA. Interstate 65 runs through the middle separating Jeffersonville from Clarksville and provides a major north-south route. Directly across the river are Interstates 64 and 71 providing east-west direct access (Lexington and St. Louis) and northeast to Cincinnati.

B. Description of Project

The Project consists of a complete upgrade and renovation to the current main library facilities, property acquisition and construction of approximately 11,000 new square feet of space.

C. Description of Qualified Obligations

Total Principal	- \$6,000,000 to mature serially over 15 years.
Security	- The Library's 2003 B Qualified Obligations will be payable from an unlimited ad valorem tax to be levied on all taxable property within Jeffersonville Township, Clark County, Indiana.
Repayment Schedule	- Semi-annual principal payments commencing July 1, 2003 and terminating January 1, 2018.
Interest Payments	- Semi-annual interest payments commencing July 1, 2003 and each January 1 and July 1 thereafter.

D. Financial Data Relating to the Qualified Entity

Net Assessed Valuation

The method of assessing real property in the State of Indiana was changed for payable year 2002 resulting in assessed values of approximately three times prior years'.

<u>Payable Year</u>		<u>Net Assessed Valuation (1)</u>
2003	\$	1,353,590,970 *
2002		1,337,139,780
2001		437,054,700
2000		417,133,500
1999		407,161,300
1998		399,078,378

* Estimated

Property Taxes Levied and Collected

<u>Tax Collection Year</u>	<u>Property Taxes Levied</u>	<u>Property Taxes Collected</u>	<u>Percent Collected</u>
2001	\$ 1,435,725	\$ 1,450,956	101.1%
2000	1,462,054	1,521,514	104.1
1999	1,384,661	1,470,193	106.2
1998	1,362,453	1,366,122	100.3
1997	1,153,628	1,187,536	102.9

Tax Impact -

As a result of this project the property tax rate is expected to increase by \$0.0374/\$100 of Assessed Value. The tax impact is based on estimated pay 2003 assessed value.

Largest Property Taxpayers Jeffersonville Township

<u>Taxpayer</u>	<u>Business</u>	<u>2001 Pay 2002 Assessed Valuation</u>	<u>% of 2001/2002 Total Assessed Valuation</u>
River Falls Mall Partners	Retail Property	\$ 13,115,000	0.98%
Macerich Finance Ltd.	Retail Property	11,735,600	0.88
Colgate-Palmolive Co.	Manufacturing	7,513,400	0.56
River Falls Mall Partners	Retail Property	7,384,600	0.55
Ann Berkley, Inc.	Lodging	6,810,100	0.51
Dillard Dept. Stores	Retail	6,556,400	0.49
Yellowood Acres	Residential	6,467,600	0.48
River Chase Apartments	Residential	6,217,100	0.46
Meijer Stores	Grocery and Retail	6,216,300	0.46
Value City of Indiana	Retail	5,810,200	0.43

Direct and Overlapping Debt (As of January 16, 2003)

<u>Description</u>	<u>Amount</u>	<u>Debt Per Capita</u>	<u>Ratio Of Debt/Assessed Valuation</u>
Total Direct Debt (including this issue)	\$ 6,000,000	\$ 105.83	0.4%
Overlapping Direct Debt & Lease Obligations	<u>62,153,679</u>	<u>1,096.28</u>	<u>4.7%</u>
Total	<u>\$ 68,153,679</u>	<u>\$ 1,202.11</u>	<u>5.1%</u>

CITY OF LOOGOOTEE MUNICIPAL WATER UTILITY

A. Certain General Economic and Demographic Information

The City of Loogootee (the “City”) is located in Martin County, Indiana approximately 80 miles northeast of Evansville and 112 miles southwest of Indianapolis. Major highways include U.S. 231, 150 and 50. The City’s population in the 2000 census was 2,741. The Loogootee/Martin County economy is concentrated in the government, retail trade and wholesale trade sectors.

The City’s Water Utility has approximately 1,450 customers. The City owns and operates the local Sewer Utility in addition to the Water Utility. The Water Utility presently has \$1,935,000 in revenue bonds outstanding. In addition, the Sewage Utility has \$4,485,000 in revenue bonds outstanding.

B. Description of Project

Proceeds of the Qualified Obligations will be used for the rehabilitation and upgrading of the existing Water Treatment Plant. The project will consist of cleaning wells, rehabilitating the aerator and filter, sandblast and repaint the water storage tanks, and replacing the aging cast iron water mains within the system.

C. Description of Qualified Obligations

Total Principal	- \$1,650,000 to mature serially over a period of 20 years.
Security and Lien	Net Revenues of the Water Utility on a parity with the \$735,000 Waterworks Refunding Revenue Bonds of 1996 and the \$1,200,000 Waterworks Revenue Bonds of 2002. (“Net Revenues” are defined as gross revenues less reasonable expenses of operation, repair and maintenance).
Repayment Schedule	- Annual principal payments commencing January 1, 2004 and terminating January 1, 2023.
Interest Payments	- Semi-annual interest payments commencing July 1, 2003 and each January 1 and July 1 thereafter.
Debt Service Reserve	- To be funded from pledged Net Revenues within five years of issuance, subject to the limits of federal and state tax law.

D. Financial Data Relating to the Qualified Entity

Utility Rates	- Billing for average residential usage (5,000 gallons of water) is set at a rate of \$39.18 per month. Rates were last increased in March 2002. Rates are solely adjudicated by the Common Council.
Debt Presently Outstanding of Water Utility	- \$735,000 Waterworks Refunding Revenue Bonds of 1996 and \$1,200,000 Waterworks Revenue Bonds of 2002 (both on parity with the Qualified Obligations).

Pro Forma Coverage

- 1.34 times – pro forma Net Revenues divided by estimated maximum annual debt service. The Indiana Bond Bank requires pro forma coverage at the time of issuance of the Qualified Obligations to be equal to or greater than 1.25 times.

K & H REGIONAL SEWER DISTRICT

A. Certain General Economic and Demographic Information

The K & H Sewer District (the “Sewer District”) is located in west-central Indiana, 60 miles southwest of Indianapolis and 17 miles east of Terre Haute. Major transportation facilities include Interstate 70 and Highway 40. The Sewer District encompasses the Town of Knightsville with a population of 624 and the Town of Harmony with a population of 589 in Clay County. Employment is concentrated in the government, manufacturing, and wholesale and retail trade sectors. The Sewer District is governed by a Board of Trustees and has approximately 558 customers.

B. Description of Project

Proceeds of the Qualified Obligations will be used for improvements to the sewage collection system, including the rehabilitation or improvement of lift stations and installation of force mains.

C. Description of Qualified Obligations

Total Principal	- \$1,150,000 to mature serially over a period of 20 years.
Security and Lien	- Net Revenues of the Sewer District (“Net Revenues” are defined as gross revenues less reasonable expenses of operation, repair and maintenance).
Repayment Schedule	- Annual principal payments commencing January 1, 2004 and terminating January 1, 2023.
Interest Payments	- Semi-annual interest payments commencing July 1, 2003 and each January 1 and July 1 thereafter.
Debt Service Reserve	- To be fully funded from cash on hand at closing.

D. Financial Data Relating to the Qualified Entity

Utility Rates	- Billing for average residential usage (600 cubic feet) is set at a rate of \$46.76 per month. Rates were last increased in January 2001 in anticipation of this financing. Rates are solely adjudicated by the Board of Trustees.
Debt Presently Outstanding	- None
Pro Forma Coverage	- 1.34 times – pro forma Net Revenues divided by estimated maximum annual debt service. The Indiana Bond Bank requires pro forma coverage at the time of issuance of the Qualified Obligations to be equal to or greater than 1.25 times.

APPENDIX C

FORM OF BOND COUNSEL OPINION

APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Bingham McHale LLP, bond counsel,
will deliver an opinion substantially in the following form:

January 29, 2003

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank Special Program Bonds, Series 2003 B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of its Special Program Bonds, Series 2003 B, dated as of January 1, 2003 (the "Bonds"), in the aggregate principal amount of \$8,885,000, pursuant to Indiana Code 5-1.5, as amended, and an Indenture of Trust between the Issuer and Union Federal Bank of Indianapolis, as trustee (the "Trustee"), dated as of January 1, 2003 (the "Indenture"). We have examined the law and such certified proceedings for the authorization, issuance and sale of the Bonds and such other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings for the authorization, issuance and sale of the Bonds and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Series 2003 B Qualified Entities (as defined in the Indenture) and others, including certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificates of each of the Series 2003 B Qualified Entities, dated the date hereof (collectively, "Tax Covenants"), without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Barnes & Thornburg, Indianapolis, Indiana, counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the report of Crowe, Chizek and Company LLP, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under Indiana Code 5-1.5, with the corporate power to execute and deliver the Indenture and to issue, execute and deliver the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).
3. The Indenture has been duly authorized, executed and delivered by the Issuer, and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.
4. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is excludable from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code"), for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuous compliance by the Issuer and Series 2003 B Qualified Entities with the Tax Covenants.

Each of the Issuer and the 2003 B Qualified Entities has covenanted or represented that it will comply with such requirements. Failure to comply with the Tax Covenants may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

5. Under existing laws, regulations, judicial decisions and rulings, the Interest on the Bonds is exempt from income taxation in the State of Indiana (the "State"). This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated January 16, 2003, or any other offering material relating to the Bonds.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

Very truly yours,

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

Preservation of Tax Exemption for the Bonds

In order to assure the continuing excludability of interest on the Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees that it will not take any action or fail to take any action with respect to the Bonds, that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any of the Bonds pursuant to Section 103 of the Code, nor will the Bond Bank act in any other manner which would adversely affect such exclusion and it will not make any investment or do any other act or thing during the period that the Bonds are Outstanding which would cause any of the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the particular Series of Bonds. Pursuant to the Indenture, all of these covenants are based solely on current law as in existence and effect on the date of delivery of the particular Series of Bonds. It will not be an Event of Default under the Indenture if the interest on the Bonds is not excluded from gross income for federal tax purposes or otherwise pursuant to any provision of the Code which is not currently in effect and in existence on the date of the issuance of such Bonds.

In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.

Covenants Concerning the Program

In order to provide for the payment of the principal of, premium if any, and interest on the Bonds and of Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner in accordance with the Act, the Indenture and sound banking practices and principals (i) do all acts and things as are necessary to receive and collect Revenues (including the enforcement of the prompt collection of any arrears on all Qualified Obligation Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Qualified Obligations and to enforce all terms, covenants and conditions of the Qualified Obligations. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Qualified Obligation which is in default.

Covenants with Respect to Qualified Obligations

With respect to the Qualified Obligations, the Bond Bank covenants as follows:

(a) Not to permit or agree to any material change in any Qualified Obligation (other than ones for which consent of the Bond Bank is not required) unless the Bond Bank supplies the Trustee with a Cash Flow Certificate to the effect that, after such change, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any in each such Fiscal Year.

(b) To the extent that such action would not adversely affect the validity of the Qualified Obligation or other obligations of the Qualified Entity, the Bond Bank will pursue the remedies set forth in the Act, particularly Indiana Code 5-1.5-8-5, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.

(c) To enforce or authorize the enforcement of all remedies available to the Bond Bank as the owner or holder of the Qualified Obligations, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that, if such remedies are not enforced, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds in each such Fiscal Year; provided, however, that decisions as to the enforcement of remedies shall be within the sole discretion of the Trustee.

(d) Not to sell or dispose of the Qualified Obligations, unless the Bond Bank first provides the Trustee with a Cash Flow Certificate to the effect that, after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale or disposition transferred from any Fund or Account, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any, in each such Fiscal Year.

Certification Covenants

In the event that a deficiency in the Debt Service Reserve Fund is projected in the annual budget of the Bond Bank, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before August 1 of the Fiscal Year in which such deficiency is projected to occur. Further, regardless of whether any such deficiency was projected for its annual budget and regardless of the time at which such deficiency occurs or is projected to occur, the Bond Bank will take all actions required or allowed under the Act to certify any deficiency or projected deficiency in the Debt Service Reserve Fund to the State General Assembly.

Budgets

The Bond Bank will adopt and file with the Trustee, upon the written request of the Trustee, and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 1 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 1, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date

and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (i) has been made or has been caused to be made in accordance with its terms, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (1) moneys sufficient to make such payment, (2) Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (3) a combination of such moneys and Governmental Obligations, and (b) all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, have been paid or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an "Event of Default" under the Indenture:

- (a) The Bond Bank defaults in the due and punctual payment of the principal of or interest on any Bond;
- (b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;
- (c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is materially false or misleading when made, and there has been a failure to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;
- (d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;
- (e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 60 days after such filing;
- (f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;
- (g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent, bankrupt, or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;
- (h) The Bond Bank fails to restore the Debt Service Reserve Fund to the applicable Debt Service Reserve Requirement within 60 days after the end of the Fiscal Year during which a deficiency occurs; or
- (i) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence of an Event of Default, the Trustee will notify the Owners of Outstanding Bonds of such Event of Default and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Qualified Obligations;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may take such action with respect to the Qualified Obligations as the Trustee deems necessary, appropriate and in the best interest of the Bondholders, subject to the terms of the Qualified Obligations.

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act. Notwithstanding the foregoing, for so long as the Policy remains in full force and effect, there will not be any acceleration of principal of, or interest on, the 2003 B Bonds unless the Trustee receives the express written consent of the 2003 B Bond Insurer prior to taking such action.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Bondholders; provided, however, that if the 2003 B Bond Insurance Policy is in full force and effect, the Trustee must receive the express written consent of the 2003 B Bond Insurer before exercising any such right or remedy in connection with the 2003 B Bonds.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture; provided, however, that for so long as the 2003 B Bond Insurance Policy remains in full force and effect, the Trustee must receive the express written consent of the 2003 B Bond Insurer before conducting any such proceedings in connection with the 2003 B Bonds.

Waivers of Events of Default

At its discretion, the Trustee may waive any Event of Default and its consequences, and must do so upon the written request of the owners of (a) more than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of all Bonds then Outstanding in respect of which an Event of Default in the payment of principal or interest exists, or (b) more than fifty percent (50%) in aggregate principal amount of all Bonds then Outstanding in the case of any other default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture, unless prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default is discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Bondholders will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred, (b) such Default shall have become an Event of Default and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name, (c) such owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (d) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds.

2003 B Bond Insurer as the Sole Bondholder

For so long as the 2003 B Bond Insurance Policy remains in full force and effect, the 2003 B Bond Insurer will be deemed by the Trustee and the Bond Bank to be the sole holder or owner of the 2003 B Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the 2003 B Bonds are entitled to take under the Indenture upon the occurrence of an Event of Default.

Supplemental Indentures

The Bond Bank and the Trustee may, without the consent of or notice to any of the owners of Bonds, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, does not materially and adversely affect the interests of the Bondholders and does not otherwise require the unanimous consent of all Bondholders under the Indenture;
- (c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indenture or any supplemental indenture in order to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;
- (e) To give evidence of the appointment of a separate or co-trustee, or the succession of a new Trustee or the succession of a new registrar and/or paying agent;
- (f) In connection with the issuance of Refunding Bonds;
- (g) To provide for the refunding of all or a portion of the Bonds; and

(h) To amend the Indenture to permit the Bond Bank to comply with any future federal tax law or any covenants contained in any Supplemental Indenture with respect to compliance with future federal tax laws.

With the exception of Supplemental Indentures for the purposes described in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, but only with the express written consent of the 2003 B Bond Insurer for so long as the 2003 B Bond Insurance Policy remains in full force and effect; provided, however, no supplemental indenture may permit or be construed as permitting, without the consent of the owners of all Bonds then Outstanding under the Indenture and the 2003 B Bond Insurer for so long as the 2003 B Bond Insurance Policy remains in full force and effect, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium, or reduction on the rate or extension of the time of payment of the interest on, any Bonds, (b) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (c) a reduction in the aggregate principal amount of the Bonds the owners of which are required to consent to such supplemental indenture, (d) the creation of any lien securing any Bonds other than a lien ratably securing all of the Bonds, at any time Outstanding, (e) a reduction in the Reserve Requirement, or (f) any amendment or modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

Additional Provisions Regarding the 2003 B Bond Insurer

For so long as the 2003 B Bond Insurance Policy remains in full force and effect the following provisions described below shall govern, notwithstanding anything to the contrary set forth in the Indenture:

- (a) The prior written consent of the 2003 B Bond Insurer shall be a condition precedent to the deposit of any Debt Service Reserve Fund Credit Facility other than the Credit Facility provided in lieu of a cash deposit into the Debt Service Reserve Fund. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Debt Service Reserve Fund shall be applied solely to the payment of debt service on the 2003 B Bonds.
- (b) The 2002 E Bond Insurer will be deemed by the Trustee and the Bond Bank as the sole holder of the 2003 B Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the 2003 B Bonds are entitled to take pursuant to those provisions of the Indenture pertaining to defaults and remedies and the duties and obligations of the Trustee, if any. The Trustee shall take no action except with the consent, or at the direction, of the 2003 B Bond Insurer. The maturity of Bonds shall not be accelerated without the consent of the 2003 B Bond Insurer.
- (c) No grace period for a covenant default under the Indenture will exceed thirty (30) days, nor be extended for more than sixty (60) days, without the prior express written consent of the 2003 B Bond Insurer. No grace period shall be permitted for payment.
- (d) The 2003 B Bond Insurer will be included as a third party beneficiary of the covenants in the Indenture made by the Bond Bank for the benefit of the owners of the 2003 B Bonds.
- (e) Upon the occurrence of an extraordinary mandatory redemption in part, the selection of 2003 B Bonds to be redeemed shall be subject to the approval of the 2003 B Bond Insurer.
- (f) The rights granted to the 2003 B Bond Insurer under the Indenture to request, consent to or direct any action are rights granted to the 2003 B Bond Insurer in consideration of its issuance of the 2003 B Bond Insurance Policy. Any exercise by the 2003 B Bond Insurer of such rights is merely an exercise of the 2003 B Bond Insurer's contractual rights and should not be construed or deemed to be taken for the benefit or on behalf of the owners of the 2003 B Bonds nor does such action evidence any position of the 2003 B Bond Insurer, positive or negative, as to whether the consent

of the owners of the 2003 B Bonds is required in addition to the consent of the 2003 B Bond Insurer.

- (g) To the extent the 2003 B Bonds are paid by the 2003 B Bond Insurer under the 2003 B Bond Insurance Policy, such 2003 B Bonds shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Bond Bank in accordance with the Indenture.
- (h) The Indenture will not be discharged until all amounts due or to become due to the 2003 B Bond Insurer have been paid in full or duly provided for.
- (i) The 2003 B Bond Insurer shall, to the extent it makes any payment of principal of or interest on the 2003 B Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the 2003 B Bond Insurance Policy.
- (j) The 2003 B Bond Insurer will be provided with the following information:
 - (1) Annual audited financial statements of the Bond Bank, if any, as soon as practicable after the end of each Fiscal Year;
 - (2) The Bond Bank's annual budget within thirty (30) days after its adoption;
 - (3) Notice of any draw upon the Debt Service Reserve Fund within two (2) business days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement, or (ii) withdrawals in connection with a refunding of the Bonds;
 - (4) Notice of the occurrence of any default known to the Trustee within five business days after knowledge thereof by the Trustee, including any default with respect to a 2003 B Qualified Obligation;
 - (5) Prior notice of any advance refunding or redemption of any of the 2003 B Bonds, including the principal amount, maturities and CUSIP numbers of such 2003 B Bonds;
 - (6) Notice of any resignation or removal of the Trustee, and the appointment of, and acceptance of duties by, any successor thereto;
 - (7) Notice of the commencement of any proceeding by or against the Bond Bank or any 2003 B Qualified Entity (if known by the Bond Bank) commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");
 - (8) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the 2003 B Bonds;
 - (9) A full original transcript of all proceedings related to the execution of any amendment or supplement to the Indenture or the 2003 B Qualified Obligations; and
 - (10) All reports, notices and correspondence delivered under the Indenture or the 2003 B Qualified Obligations.
- (k) Each of the Bond Bank and the Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to perfect or otherwise preserve the priority of the pledge of the Trust Estate under State law.

- (l) The Bond Bank shall pay or reimburse the 2003 B Bond Insurer any and all charges, fees, costs and expenses which the 2003 B Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture or any 2003 B Qualified Obligation; (ii) the pursuit of any remedies under the Indenture or any 2003 B Qualified Obligation or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any 2003 B Qualified Obligation whether or not executed or completed; (iv) the violation by the Bond Bank or any 2003 B Qualified Entity of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Indenture or any 2003 B Qualified Obligation or the transactions contemplated thereby, other than amounts resulting from the failure of the 2003 B Bond Insurer to honor its obligations under the 2003 B Bond Insurance Policy. The 2003 B Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any 2003 B Qualified Obligation.

After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to payment of expenses of the Bond Bank or rebate only after the payment of debt service due and past due on the 2003 B Bonds, together with replenishment of the Debt Service Reserve Fund.

The 2003 B Bond Insurer shall be entitled to pay principal of or interest on the 2003 B Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Bond Bank (as such terms are defined in the 2003 B Bond Insurance Policy) and any amounts due on the 2003 B Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the 2003 B Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the 2003 B Bond Insurance Policy) or a claim upon the 2003 B Bond Insurance Policy.

- (m) To accomplish defeasance, the Bond Bank shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the 2003 B Bond Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the 2003 B Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the 2003 B Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the 2003 B Bonds are no longer "Outstanding" under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the 2003 B Bonds. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Bond Bank, the Trustee and the 2003 B Bond Insurer. The 2003 B Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

APPENDIX E
DEFINITIONS

APPENDIX E

DEFINITIONS

The following are definitions of certain terms used in the Official Statement, including its Appendices:

“2003 B Bond Insurance Policy” means the insurance policy issued by the 2003 B Bond Insurer guaranteeing the scheduled payment of principal of and interest on the 2003 B Bonds when due.

“2003 B Bond Insurer” means Financial Security Assurance Inc.

“2003 B Bonds” means the Indiana Bond Bank Special Program Bonds, Series 2003 B, issued pursuant to the Indenture.

“2003 B Qualified Entities” means K&H Regional District, the Jeffersonville Township Public Library District of Clark County and the City of Loogootee.

“2003 B Qualified Obligations” means the Qualified Obligations listed and described on Appendix B attached hereto.

“Accounts” means the accounts created pursuant to the Indenture.

“Act” means the provisions of Indiana Code 5-1.5, as from time to time amended.

“Authorized Officer” means the Chairman, Vice Chairman or Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended from time to time.

“Bond Bank” means the Indiana Bond Bank, a public body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

“Bondholder” or “holder of Bonds” or “owner of Bonds” or any similar term means the registered owner of any Bond.

“Bond Issuance Expense Account” means the account by that name created by the Indenture.

“Bonds” means the 2003 B Bonds and any Refunding Bonds.

“Cash Flow Certificate” means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

“Code” means the Internal Revenue Code of 1986 in effect on the date of issuance of the 2003 B Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

“Costs of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter's discounts, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of the Bonds, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

“Credit Facility” means any letter of credit, revolving credit agreement, surety bond, insurance policy or other agreement or instrument.

“Credit Provider” means the issuer of any Credit Facility and its successor in such capacity and their assigns. To qualify under the Indenture, the Credit Provider providing such Credit Facility shall be either:

(i) an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds; or

(ii) a bank or trust company which at the time of issuance of such Credit Facility has an outstanding, unsecured, uninsured and unguaranteed debt issue rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds.

“Debt Service Reserve Fund” means the fund by that name created by the Indenture.

“Debt Service Reserve Fund Credit Facility” means any Credit Facility, including the FSA Credit Facility issued or provided by a Credit Provider, including 2003 B Bond Insurer: (i) which may be deposited in a reserve account in the Debt Service Reserve Fund in lieu of or in partial substitution for cash or investment securities to be on deposit therein, and (ii) which shall be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such reserve account in which such Credit Facility is deposited and applied to the payment of the principal of or interest on any Bonds.

“Debt Service Reserve Fund Reimbursement Obligation” means any obligation to reimburse the Credit Provider of any Debt Service Reserve Fund Credit Facility for any payment made under such Debt Service Reserve Fund Credit Facility or any other obligation to repay any amounts (including, but not limited to, fees or additional interest) to the Credit Provider.

“Default” means an event or condition, the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

“Event of Default” means any occurrence of an event specified in the Indenture.

“Fees and Charges” means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the 2003 B Qualified Entities.

“Fiscal Year” means the twelve-month period from July 1 through the following June 30.

“FSA Credit Facility” means the Debt Service Reserve Fund Credit Facility issued by Financial Security Assurance Inc.

“Funds” means the funds created pursuant to the Indenture, except for the Rebate Fund.

“General Account” means the account by that name created by the Indenture.

“General Fund” means the fund by that name created by the Indenture.

“Governmental Obligations” means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the

United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“Indenture” means the Indenture of Trust, dated as of January 1, 2003, between the Indiana Bond Bank and Union Federal Bank of Indianapolis, and all supplements and amendments thereto entered into pursuant thereto.

“Interest Payment Date” means any date on which interest is payable on the Bonds.

“Investment Agreement” means the Investment Agreement dated as of the date of closing, between CDC Funding Corp. and the Trustee, as further identified in the Indenture.

“Investment Earnings” means earnings and profits (after consideration of any accrued interest paid and/or amortization of premium or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture.

“Library” means Jeffersonville Township Public Library District of Clark County.

“Moody’s” means Moody’s Investors Service or any successor thereto.

“Notice Address” means, with respect to a Qualified Entity, the Qualified Entity’s address given in connection with the sale of its Qualified Obligations to the Bond Bank, and, with respect to the Bond Bank, the Trustee and the 2003 B Bond Insurer:

Bond Bank:	Indiana Bond Bank Attention: Chairman 2980 Market Tower Indianapolis, IN 46204
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Trustee:	Union Federal Bank of Indianapolis 45 N. Pennsylvania Street, 1 st Floor Indianapolis, IN 46204
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2003 B Bond Insurer:	Financial Security Assurance Inc. 350 Park Avenue New York, NY 10022-6022 Attention: Managing Director - Surveillance
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“Opinion of Bond Counsel” means an Opinion of Counsel by a nationally recognized firm experienced in matters relating to the tax exemption for interest payable on obligations of states and their instrumentalities and political subdivisions under federal law and which is acceptable to the Bond Bank and the Trustee.

“Opinion of Counsel” means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

“Outstanding” or “Bonds Outstanding” means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

- (1) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;
- (2) Bonds deemed paid under the Indenture; and

(3) Bonds in lieu of which other Bonds have been authenticated under the Indenture or under any Supplemental Indenture.

“Principal Payment Date” means the maturity date or the mandatory sinking fund redemption date of any Bond.

“Program” means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

“Program Expenses” means all of the fees and expenses of the Trustee and costs of determining the amount rebatable, if any, to the United States of America under the Indenture, all to the extent properly allocable to the Program.

“Purchase Agreement” means a Qualified Entity Purchase Agreement between the Bond Bank and a Qualified Entity, pursuant to which one or more Qualified Obligations are sold to the Bond Bank.

“Purchase Contract” means the Bond Purchase Agreement, for the 2003 B Bonds between the Bond Bank and the Underwriters, dated January 16, 2003, the form of which was approved at the meeting of the Board of Directors of the Bond Bank on January 14, 2003.

“Qualified Entity” means an entity defined in IC 5-1.5-1-8, as amended from time to time, including the 2003 B Qualified Entities.

“Qualified Obligation” means a Security (as that term is defined in the Act), including the 2003 B Qualified Obligations, which has been acquired by the Bond Bank pursuant to the Indenture.

“Qualified Obligation Interest Payment” means that portion of a Qualified Obligation Payment which represents the interest due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Payment” means the amounts paid or required to be paid, from time to time, for principal of and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Principal Payment” means that portion of a Qualified Obligation Payment which represents the principal due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Rebate Fund” means the fund by that name created by the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date.

“Redemption Account” means the account by that name created by the Indenture.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption prior to maturity.

“Refunding Bonds” means Bonds issued pursuant to the Indenture and any Supplemental Indenture.

“Reserve Requirement” means an amount equal to the least of (i) the maximum annual debt service on the Bonds, (ii) ten percent of the original stated principal amount of the Bonds, or (iii) 125 percent of average annual debt service on the Bonds, which at the time of issuance of the 2003 B Bonds means an amount equal to \$800,705.41.

“Revenues” means the Funds and Accounts and all income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture, including, without limitation, all Qualified Obligation Payments.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, or any successor thereto.

“Series of Bonds” or “Bonds of a Series” or “Series” or words of similar meaning means any Series of Bonds authorized by the Indenture or by a Supplemental Indenture.

“State” means the State of Indiana.

“Supplemental Indenture” means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

“Trustee” means Union Federal Bank of Indianapolis, a federal savings bank duly organized and existing under the laws of the United States of America with its principal corporate trust office located in Indianapolis, Indiana, or any successor thereto under the Indenture.

“Trust Estate” means the property, rights, and amounts pledged and assigned to the Trustee pursuant to the granting clauses of the Indenture.

"Underwriters" mean with regard to the 2003 B Bonds, NatCity Investments, Inc. and McDonald Investments Inc.

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)